AUDITOR GENERAL
Alberta

Annual Report of the Auditor General of Alberta

2005–2006

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Volume 1

We published Volume 1 separately.
It contains a snapshot, recommendation statistics, acknowledgements, our major systems audits, and topics involving more than one ministry.

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Volume 1

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Aboriginal Affairs and Northern Development

Summary: what we found in our audits

Performance reporting

Our auditor's report on the Ministry financial statements was unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

The Ministry's 2005–2008 business plan describes two core businesses:

Two core businesses

Aboriginal Relations:

- Encourage increased Aboriginal participation in the social and economic life of Alberta and facilitate the resolution of significant Aboriginal issues
- Provide advice and specialized knowledge to assist other ministries, Aboriginal governments, communities and organizations and other interested parties to identify and resolve emerging issues.

Northern Development:

- To advance the development of Northern Alberta

Ministry spent $39 million

In 2005–2006, the Ministry spent $39 million on the following programs:

	(millions of dollars)
Aboriginal Affairs	22
Métis Settlements Appeal Tribunal	1
Métis Settlements Legislation	10
Northern Development	2
Métis Settlements Governance	4

No external revenue

The Ministry receives no revenue from sources external to government.

Website

For more information about the Ministry, visit its website at www.aand.gov.ab.ca.

Scope: what we did in our audits

Financial statements

We audited the financial statements of the Ministry for the year ended March 31, 2006.

Performance measures

We completed specified auditing procedures on the Ministry's performance measures.

Advanced Education

Summary: what we found in our audits

Systems

The Department should improve its monitoring of the apprenticeship program in the trades industries by:

- improving the accuracy of its information on employers and management of its visits to employers—see page 9.
- selecting employers to visit based on the likelihood of identifying apprenticeship training opportunities and problems at worksites—see page 12.

Performance reporting

Our auditor's report on the financial statements of the Ministry is qualified because the public post-secondary institutions are not included—see page 19.

Our auditor's reports on the financial statements of the Department and the Access to the Future Fund are unqualified.

We found no exceptions when we applied specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

- Systems—University of Calgary

  The University of Calgary should strengthen controls in its information technology environment—see page 20.

  The University of Calgary should improve reporting processes in its Campus Security Services division—see page 26.

- Systems—University of Alberta

  The University of Alberta should conduct an independent program assessment and operational reviews of its Campus Security Services division to help ensure that it complies with the law, uses good enforcement practices, and meets the University's goals—see page 29.

- Performance reporting—post-secondary institutions

  Our auditor's reports on the financial statements of post-secondary institutions listed in 3.2 of the Scope section are unqualified.

Overview of the Ministry

The Ministry's 2005–2008 business plan identifies two core businesses:

- Support the Advanced Education system to provide affordable, accessible and high quality learning opportunities
- Support Learners to achieve their maximum potential

In 2005–2006, the Ministry spent approximately $1.72 billion. The largest expenses are:

	(millions of dollars)
Grants to post-secondary institutions	1,512
Grants to post-secondary learners	89

The Ministry's revenue was approximately $281 million in 2005–2006. The primary source of revenue is the Government of Canada ($213 million).

For more information on the Ministry, visit its website at http://www.advancededucation.gov.ab.ca/.

Scope: what we did in our audits

1. Systems

We:

- examined the Department's systems for monitoring the apprenticeship program in the trades industries
- followed up on our previous recommendations on student loans and public post-secondary institutions purchasing

2. Performance reporting

We:

- audited the financial statements of the Ministry, the Department and the Access to the Future Fund for the year ended March 31, 2006.
- completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

3.1 Systems—post-secondary institutions

We:

- examined the University of Calgary's information technology environment general computer controls and security controls in the new administrative PeopleSoft systems.
- examined campus security services at the University of Alberta and the University of Calgary.

- followed up on our previous recommendations where management had sufficient time to implement the recommendations.

Also, at the request of the Board of Governors of Mount Royal College (the Board), we examined the governance processes of the Board with particular emphasis on committee processes. In a report issued in the fall of 2005, we stated that the governance processes employed by the Board were well-functioning. In the report, we also identified a number of opportunities to further strengthen these processes. As a result of our work, the Board requested and received a formal presentation of the report at its 2005 retreat. This presentation and the report were well received by the Board members. We were pleased to examine the governance system on behalf of the board and look forward to doing so at other post-secondary education institutions.

3.2 Performance reporting—post-secondary institutions

We audited the financial statements for the year ended March 31, 2006 of the following entities:

- Athabasca University
- University of Alberta
- University of Calgary and its subsidiaries/related entities, The Arctic Institute of North America, The University of Calgary Foundation (1999), and the University Technologies Group
- University of Lethbridge

We also audited financial information of the Olympic Oval/Anneau Olympique, operated by the University of Calgary.

We audited the financial statements for the year ended June 30, 2005 of the following entities:

- Alberta College of Art and Design
- Bow Valley College
- Grant MacEwan College and its related entity Grant MacEwan College Foundation
- Grande Prairie Regional College and its related entity Grande Prairie Regional College Foundation
- Keyano College
- Lakeland College
- Lethbridge Community College and its related entity Lethbridge Community College Fund
- Medicine Hat College and its related entity Medicine Hat College Foundation
- Mount Royal College and its subsidiary/related entities Mount Royal College Day Care Society and Mount Royal College Foundation

- Northern Alberta Institute of Technology and its related entities the Northern Alberta Institute of Technology Foundation and Fairview College Foundation
- Northern Lakes College
- NorQuest College and its related entity NorQuest College Foundation
- Olds College
- Portage College
- Red Deer College
- Southern Alberta Institute of Technology

Our audit findings and recommendations

1. Systems

1.1 Apprenticeship and trades management

Overview

Training and certification: Ministry role

In Alberta, the Ministry of Advanced Education regulates training and certification for 51 trades through a board and network of committees established under the *Apprenticeship and Industry Training Act* (the Act). The Ministry sets standards for training of apprentices and certification of tradespeople. Its goal is to ensure an adequate supply of tradespeople who meet the needs and standards of Alberta industry. The Ministry also has an enforcement role under the Act, but its focus is on training and certification.

Compulsory and optional certification trades

Nineteen trades, such as automotive service technician, electrician, plumber and hairstylist, are designated by regulation as compulsory. To work in a compulsory trade, the Act requires that an individual be a certified journeyman, registered apprentice supervised by a journeyman, or otherwise have permission under the Act. The Minister may grant this permission subject to appropriate terms or conditions. The other 32 trades are designated as optional. This means that certification is not required to work in the trade, but people can choose to be certified by meeting provincial training and examination standards.

Role of Alberta Apprenticeship and Industry Training Board

Board sets training and certification standards

The standards for trades are set by the Alberta Apprenticeship and Industry Training Board (the Board). It reports to the Minister and is comprised of members of trades and other industries. The Board appoints a Provincial Apprenticeship Committee (PAC) for each trade to give advice on training, certification requirements, and standards for the trade. PACs consult with

stakeholders in the trade and recommend changes in training and certification standards to the Board, for its approval.

Role of Department

The Department supports the Board and PACs, and ensures standards are met by administering exams and monitoring apprentices, employers, and training institutions.

Department ensures the standards are met

The Department maintains an information system that records known worksites and employers operating in the trades, and visits these sites on a rotating basis. During employer site visits, Department field staff verify that everyone working in a compulsory trade at that site, or for that employer, is properly certified or registered. Department field staff also verify that the employer is meeting the apprentice training standards for the trade.

The Department may enforce compliance with the Act through court orders, but its preferred approach is to encourage unregistered workers to apply for recognition of their skills in the trade or register as apprentices to work towards certification. The Department's goal is to bring more people into the apprenticeship system to develop their skills to meet industry standards.

1.1.1 Effective monitoring of employers providing apprenticeship training

Recommendation No. 23

We recommend that the Department of Advanced Education improve its monitoring of employers providing apprenticeship training by:

1. **improving the accuracy of its information on active employers,**
2. **ensuring that its records of the visits by its staff to employers are available to its field staff and management, and**
3. **improving its performance evaluation of staff carrying out these visits.**

Background

Employer visits are performed throughout the province by staff based in 12 field offices in two regions. The Department uses these visits to promote the apprenticeship program and provide information to employers and apprentices. It also relies on employer worksite visits to ensure that employers and employees are complying with the Act.

The Department records the results of the most recent employer visit on its computer system. The record includes information on employees working at the site and may include notes of any compliance orders issued during the visit.

Criteria: the standards we used for our audit

The Department should:

- maintain up-to-date information on employers.
- maintain records of each employer visit for future review.
- investigate and have timely follow up of all compliance infractions and problems timely.
- have standards and procedures in place to help ensure that the compliance process is effective, meets the Act and current regulations, and meets any other relevant standard at the time of inspection.

Our audit findings

Maintaining up-to-date information on employers

Department needs up-to-date information on employers to schedule worksite visits

The Department maintains a database of employers and worksites for the trades. It classifies worksites as active, inactive, or out-of-business. We noted inaccuracies in the Department's database. Out of a sample of 110 employers in Edmonton and Calgary classified as inactive or out-of-business for more than two years, we identified seven employers still listed in the current phone book. A further sample of 100 employers in compulsory trades selected from the recent yellow pages identified six employers not listed in the Department's database, and one employer incorrectly classified as inactive.

Worksites classified as inactive or out-of-business are not subject to scheduled employer visits. The Department is aware of these problems, and plans to review the data on inactive and out-of-business worksites to correct the errors.

Recording employer visits

The Department keeps copies of compliance orders in a paper file, organized by the date the order was issued, and tracks them through a manual log. Senior managers in the Department monitor outstanding compliance orders to ensure they are resolved promptly. Unresolved compliance problems go to Alberta Justice for court orders to enforce compliance with the Act. While this process resolves compliance problems, it is hard to search the records to find compliance orders issued for a particular employer unless the details of the compliance order are already known.

The Department's computer system allows staff to record comments in records of employers or employees. These comments are included in a standard report that is the primary source of information for field staff on the results of previous employer visits. But field staff only sometimes use this comment feature to reference compliance orders issued from previous visits to a worksite. We found no reference to compliance orders on the Department's system for 26 employers or individuals, out of a sample of 40, to whom the Department had issued compliance orders in the previous year.

Detailed records of employer visits not available to all field staff

The Department requires field staff to maintain their own notes and records for each employer visit, as this documentation may be required as evidence for court applications or prosecutions. The policies identify this documentation as a Department record. However, these notes are not available to other field staff who may also perform visits. This lack of availability can be a problem when staff leave and new staff are hired. For example, one field office had new employees in 10 of 13 field staff positions in the past three years.

The Department also maintains statistics on total employer visits and compliance orders by each field office. However, these statistics do not identify the trades or industries involved, making it hard to identify trades or industries with the highest non-compliance rates. Such information may be useful to the Department in evaluating the effectiveness of current training standards and methods, and evaluating the likelihood of problems at worksites for prioritizing future employer visits.

Ensuring effectiveness of employer visits

Field staff are appraised based on the number of employer visits they carry out each year, but there is no standard measure of the effectiveness of staff in achieving program goals.

Department can improve its evaluation of field staff who carry out employer visits

In one of the two regions, supervisors contact a few employers each week who have been recently visited to obtain feedback on the performance of field staff who carried out the visits. This feedback is useful in evaluating the quality of service to employers and apprentices. However, this feedback provides little information on staff performance in ensuring compliance with the Act. The Department informed us that it relies on the professionalism of its field staff, and on unsolicited comments from employers and apprentices, to learn if staff are not doing an adequate job.

Instead of just evaluating staff based on the number of employer visits performed, the Ministry should consider measuring the program objectives achieved, such as the number of new apprentices registered as a result of these visits.

Implications and risks if recommendation not implemented

Field staff may not be aware of past issues at worksites, so they may not have the right focus during the visit and may therefore miss current compliance problems at the worksite.

The Department may not have the information needed to evaluate the likelihood of apprentice training opportunities or problems at worksites when selecting employers to visit.

The Department may be less effective in detecting non-compliance with the Act and miss opportunities to train apprentices.

1.1.2 Selecting which employers to visit based on risk and opportunity

Recommendation

We recommend that the Department of Advanced Education select which employers to visit based on the likelihood of identifying apprentice training opportunities and problems at worksites.

Background

The Department maintains a database of employer worksites for the trades, classified as active, inactive, or out-of-business. Employers in non-compulsory trades who do not wish to participate in the apprenticeship program may be designated as inactive. Department staff visit employers on a rotating basis to update the employer and employee information, promote the apprenticeship program, and evaluate compliance with the Act.

The Department focuses on the training of apprentices. Department field staff look for opportunities to improve employers' understanding and use of the apprenticeship system, to provide better training for apprentices. The field staff also look for problems, such as non-compliance with the Act or standards, that may impair the training of apprentices.

Criteria: the standards we used for our audit

The Department's system to select which employers to inspect should be based on the risk of problems, such as non-compliance with the Act, and the likelihood of identifying training opportunities.

Our audit findings

Department tries to visit employers every two years

The Department generally does not choose its employer visits based on the likelihood of identifying training opportunities or problems. Instead, it tries to visit all active employers on a rotating basis, with a target of one visit every two years.

The Department generally meets its two-year target in Edmonton and Calgary. However, in 11 other places, many active employers have not been inspected for more than two years.

But has been unable to meet the two year target in several locations

Location	Active Sites Not Visited Within 2 Years	Percentage of Active Sites not visited
Red Deer	343	46
Lethbridge	209	33
Medicine Hat	141	29
Leduc	75	40
Rocky Mountain House	71	42
Bonnyville	51	33
Lacombe	48	38
High Level	46	46
Strathmore	45	49
Ponoka	38	40
Taber	32	26
	1,099	38%

Overall, staff have not visited 3,652 active employer worksites across the province (17% of total active sites) in the past two years. The risk of not detecting problems at worksites increases if sites are not regularly visited.

Employer visits based on risk may be more effective

The Department gives priority to worksites of employers it receives complaints about, so it visits these employers more frequently. The Department reports that it has visited all employers it has received complaints against in the past two years. However, the investigation of complaints often does not lead to identification of problems, and many of the compliance orders issued by the Department are based on employer visits for which no complaints have been received. The Department may be more effective in achieving program objectives if it directs employer visits based on the likelihood of finding apprenticeship training opportunities or problems.

For example, Department staff and a Board member expressed concern about the number of apprentices that drop out of the program each year. By visiting shops that have higher drop-out rates, Department staff may learn why the apprentices left the program and improve its strategies to solve this problem.

Implications and risks if recommendation not implemented

The Department may fail to identify apprenticeship training opportunities and problems at worksites, resulting in lost opportunities to improve the Alberta labour force.

1.1.3 Keeping training and certification standards current

Criteria: the standards we used for our audit

The Ministry should have:

- systems to ensure that it designates the appropriate trades as compulsory and sets the appropriate standards for designated trades.
- processes for keeping requirements for training and certification current with industry trends and technological advancements.
- processes to ensure individuals authorized by the Minister to work in trades are complying with the conditions of the authorization.

The Department should have:

- standards and qualification benchmarks to evaluate proposed members of committees.
- systems in place to evaluate the effectiveness of the Alberta Apprenticeship and Industry Training Board.

The Department and Board should:

- develop appropriate measures to evaluate the effectiveness of each Provincial Apprenticeship Committee in fulfilling its responsibilities under the Act.

Our audit findings

These criteria were met.

1.1.4 Apprentices meeting certification standards

Criteria: the standards we used for our audit

The Department should:

- have systems in place to assess whether apprentices, or other individuals seeking permission to work in trades, meet provincial standards—before certification.
- maintain up-to-date information on apprentices.
- monitor whether individuals receive effective training or have some other experience that meets provincial standards.
- monitor training establishments to help ensure training content and methods are consistent with provincial training standards.

Our audit findings

These criteria were met.

1.1.5 Ministry's monitoring of trades

Criteria: the standards we used for our audit

The Ministry should have systems to monitor trades, evaluate compliance with the Act and regulations, and advise the Minister and Board on its effectiveness in carrying out the purposes of the Act.

Our audit findings

These criteria were met.

1.2 Student loans

1.2.1 Designating programs at private institutions as eligible for funding—satisfactory progress

Background

In our *2004–2005 Annual Report* (No. 15—page 82), we recommended that the Department of Advanced Education:

- consistently use graduation and employment data, along with information on loan relief benefit grant (LRB grant) overpayments, in deciding which programs continue to be eligible for student funding.
- test the reliability of student graduation and employment data provided by private institutions that have students with student loans.

We reported the Department did not always use complete data when deciding which programs continue to be eligible for student funding. Department staff that make these decisions (designation staff) did not regularly use information on student graduation and employment rates, number of students with student loans in a program, and LRB grant overpayment amounts and rates. This information was not available in a single report, or by some other means, to ensure the designation staff had complete information when making these decisions.

Other Department staff (licensing staff) use information on student graduation and employment rates. Having a license is the main criterion in deciding if a program is to be designated as eligible for student funding.

We also reported that the Department had not tested the reliability of graduation and employment data from private vocational institutions for at least three years.

Our audit findings

Department tested data from private institutions and developed plans to improve the data's accuracy

The Department made satisfactory progress by implementing the second part of the recommendation and making sufficient improvement on the first part. It tested the accuracy of the 2004–2005 graduation and employment data from private institutions and found that the data is not always accurate. This means that the Department sometimes uses incorrect information in deciding which programs remain eligible for student funding. The Department developed an action plan to improve the data accuracy by, for example, clarifying the instructions for private institutions on how to compile and calculate the data. The Department also plans to annually test the private institutions' data and has included this work in its 2006–2007 operational plan.

On the first part of the recommendation, the Department began monitoring Canada Student Loan (CSL) default rates in addition to Alberta Student Loan rates. The CSL default rate is now one of the factors the Department uses in deciding which programs continue to be eligible for student funding.

Department staff need better information for deciding which programs to fund

While the Department uses graduation and employment rates for licensing decisions, its designation staff do not consistently use this information. In an informal process, designation staff receive verbal, ad hoc information on graduation and employment rates from licensing staff. The Department plans to decide what graduation and employment data the designation staff need to have, and implement a formal process to ensure they get it.

Licensing staff use student withdrawal information to calculate graduation rates. Because LRB grant overpayments occur when students withdraw from a program, students receiving overpayments are considered in decisions to continue funding. Therefore, the Department does not need to use LRB grant overpayment information as a separate factor in deciding which programs continue to be eligible for student funding.

What remains

To finish implementing the recommendation, the Department must conclude what data is needed by designation staff to make decisions on program eligibility for student funding, and then finalize the processes to ensure staff have this data.

Implications and risks if recommendation not implemented

By using inaccurate and incomplete data, the Department may fund programs that do not produce graduates and employable students.

1.2.2 Departmental compliance tests—satisfactory progress

Background

In our *2004–2005 Annual Report* (No. 16—page 83), we recommended that the Department:

- test and evaluate the risk of issuing excessive loans and loan relief benefit grants (LRB grants) caused by inaccurate student eligibility information.
- automate the process it uses to decide if income variances are due to Department grants.

We reported that the Department issued loans and LRB grants based on the information provided by students—but did not test all student eligibility information. The Department calculated the total overpayments for the students tested—but did not calculate the possible overpayments for the total population.

After paying the loans and LRB grants to students, the Department obtains information from the Canada Revenue Agency (CRA) to verify students' eligibility, based on factors such as the students' income. It then compares its information to the information provided by students. The Department uses income variances to select student files to test. We reported that the Department could save time by automating the process to decide if income variances between its databases and CRA's are due to Department's grants.

Our audit findings

Plans to improve testing developed

The Department developed plans to improve testing of the following loan and LRB eligibility information:

- parental income level
- student residency
- first-time and first-year student status

The plans' target completion dates range from November 2006 to December 2007. This timeframe is reasonable because implementation will require assistance from the Department's Information Technology staff, who have competing priorities over the next two years.

Department evaluating whether further changes needed to testing approach

The Department is also randomly testing student files typically considered low risk. It will calculate the possible proportion of students who do not comply with its guidelines, as a reasonable alternative to quantifying the possible overpayment. The Department will use these results and, based on the risk of inaccurate information, decide the appropriate amount of testing needed in areas such as students' income and assets. It expects these test results by October 2006.

Improvements to sample selection process are planned

The Department has decided that full automation of the process to decide if income variances are due to Department grants is not feasible due to inconsistencies in student income reporting to CRA and the differences in the Department's and CRA's income exemption limits. But instead of manually selecting samples from a paper report, the Department plans to use more detailed, electronic data for selecting student files to test. The Department expects this to improve the efficiency and effectiveness of the sample selection process.

What remains

To finish implementing our recommendation, the Department needs to complete its testing and evaluation of the risk of reported student eligibility information being inaccurate. This will allow it to conclude on the appropriate amount of testing of this eligibility information needed in future. It also needs to finish improving the sample selection process used to test eligibility information.

Implications and risks if recommendation not implemented

If the Department does not test and evaluate all areas with significant risk, it may provide loans and grants to the wrong people or provide too much in loans and grants to the right people, which increases the risk of financial losses.

1.3 Public post-secondary institution purchasing—implemented

Background

In our *2004–2005 Annual Report* (No. 17—page 84) we recommended that the Department of Advanced Education work with public post-secondary institutions (PSIs) to find opportunities to purchase goods and services at better prices.

PSIs control their own purchasing decisions. We expected the Department to make PSIs aware of opportunities for obtaining better prices—by promoting group purchasing in the sector and aiding communication with government departments.

Our audit findings

Recommendation implemented

The Department implemented the recommendation by:

- meeting with senior business officers of PSIs and encouraging them to work together to save on purchases.
- obtaining information from the Ministry of Restructuring and Government Efficiency on the prices available through government standing offer contracts, the detailed terms and conditions of the contracts, and opportunities for PSIs to participate in upcoming tendering processes. The Department passed this information on to PSIs.
- putting PSIs in contact with the Learning Resources Centre (the Centre) of the Department of Education to investigate how to save on textbook purchases.

PSI's are working together to obtain better prices

The PSI senior business officers we met believe the government standing offers provide a good price, but may not meet PSIs' individual needs for additional services or technical support. They agreed to use the government standing offer discounts in negotiating with potential vendors, share information about contract negotiations with other PSIs, and provide opportunities for others to participate in their contracts. Some smaller PSIs are now using the standing offers of larger ones to save.

The managers of ancillary operations (bookstores, food services, and other commercial operations) at PSIs formed a group to share best practices and identify opportunities to save through group purchasing. This group gave the Centre a list of books PSIs bought. The Centre is obtaining quotes from publishers and considering ways to buy the textbooks at lower cost for PSIs.

1.4 Affordability of the learning system—not assessed

The Department is reviewing its policies for access to and affordability of post-secondary education. We will follow-up on this recommendation next year.

1.5 Tuition fee policy

1.5.1 Measurement of results—not assessed

1.5.2 Tuition fee policy compliance—not assessed

The Department is reviewing its policies for access to and affordability of post-secondary education. We will follow-up on these recommendations next year.

2. Performance reporting

Qualified audit opinion

We qualified our opinion on the Ministry's financial statements because they do not include the public post-secondary institutions.

Public post-secondary institutions should be included

Public post-secondary institutions are controlled entities of the Ministry and therefore should be consolidated in its financial statements. If it had done so, on a modified equity basis, the Ministry's net assets would have increased by approximately $2.4 billion and net income and contributions to endowments would have increased by approximately $278 million, for the year ended March 31, 2006.

The modified equity method of consolidation is allowed as a transition to line-by-line consolidation, which will be required for the year ending March 31, 2009.

Net assets would have increased by $4.6 billion

Under line-by-line consolidation, the Ministry's capital assets would have been fully consolidated so that net assets at March 31, 2006 would have increased by approximately $4.6 billion instead of the $2.4 billion noted in our qualified audit opinion.

Our auditor's reports on the financial statements of the Department and the Access to the Future Fund are unqualified.

We had no exceptions on the specified auditing procedures report on the Ministry's performance measures.

3. Other entities that report to the Minister

3.1 Systems—University of Calgary

3.1.1 General computer controls

Recommendation

We recommend that the University of Calgary strengthen the overall computer control environment by clearly defining the role and responsibilities of the Chief Information Officer (CIO) and resolving deficiencies in the following areas:

- **defining standards**
- **strategic planning**
- **risk assessment and mitigation**
- **business continuity and disaster recovery planning**
- **day-to-day operations**

Background

We examined the University's information technology (IT) environment as part of our annual financial statement audit process. The University of Calgary has a large, complex IT environment. This environment is changing significantly because the University is moving many of its critical business and financial functions from its previous administrative (legacy) systems to new software, called PeopleSoft. During the transition, the University has had two parallel IT environments.

Criteria: the standards we used for our audit

The University should have sound IT governance processes and reliable IT general controls for:

- risk assessment and security management
- access to programs and data
- change management
- program development
- computer operations
- business continuity

Our audit findings

General processing controls are reliable

We can rely on the general processing controls for the financial statement audit because controls operated effectively for most daily computer operations, including access to programs and data, change management, and program development activities.

Unclear definitions, many deficiencies

However, the role and responsibilities of the CIO who oversees the campus-wide IT functions and activities are not clearly defined, and deficiencies exist in the governance processes and in the general control environment.

11 control deficiencies identified

The specific control deficiencies are as follows:

IT Governance

The first two deficiencies described below also impact the effectiveness of the general controls for the six areas described in our criteria.

1. **Lack of clarity on the role and responsibilities of the CIO**—the University assigned the CIO the necessary responsibility and authority to oversee overall, campus-wide IT strategy development, operations and the allocation of IT funding. However, staff do not understand the role and responsibilities of the CIO because the University did not clearly define or communicate the CIO's role and responsibilities.

2. **No comprehensive strategic planning for IT**—IT encompasses centralized and distributed operations of the University. Some strategic planning components exist as part of the budgeting process. However, no documented strategic plan matches IT strategies with business objectives, establishes performance metrics, or monitors progress towards those objectives and metrics. The *Creating the Connected Campus* presentation by the University's CIO identifies strategic planning for IT as one of its top outstanding issues.

Risk assessment and security management

3. **Incomplete integrated business and IT risk assessment plan**—the University is starting to develop a process to identify, analyze and rank risks. However, only an incomplete IT risk mitigation action plan currently exists. In 2004, the University established an enterprise risk management committee, which developed an institutional policy, terms of reference, and a roadmap for integrated risk management. This year, management expects to identify, analyze, rank and mitigate risks, including IT risks. The University needs to finish the process by incorporating IT risks in the institutional risk management plan and then implementing the plan.

4. **No regular training for internal control and security awareness**—no one person or group is responsible for internal control and security awareness training, though supervisors and co-workers conduct informal training. All IT users need to be aware of the policies and procedures for handling sensitive and confidential data, and developing and maintaining key information systems.

5. **No procedures for monitoring security violations**—the University has designed an enhanced logging routine but not yet implemented it. We found little evidence of ongoing monitoring of violations—attempted or successful. Generally, management relies on security functions built in to the systems to perform the security. Good practice requires all security violations be logged and promptly investigated.

Access to programs and data

6. **No documented policies for data classification**—data classification ensures that all data is assigned a sensitivity level. Once that sensitivity level is set, it is maintained for the life of the data. A data classification policy—if enforced—helps ensure that data is accessible only to authorized individuals.

Program development

7. **No standards for business cases or post-implementation reviews of completed projects**—the University has no standards to guide sponsors in preparing business cases or to explain what information they need to document in business cases. As a result, IT management may have insufficient information to evaluate projects. They may also be unable to support their choices of which IT projects—among many competing for resources—to invest in.

   The University also has no standards to guide project teams about which new projects they should review after implementation and which aspects of the projects they should evaluate. Although the University evaluates some aspects of new projects, such as user satisfaction and system performance, it has only incomplete information to assess the success of the projects.

Computer operations

8. **Insufficient performance measures and targets**—IT management has limited performance measures and targets against which to monitor its progress on strategic objectives, react accordingly, and meet objectives. While some operational measures exist for areas such as the service desk, IT management has insufficient information to assess performance or change its operations.

9. **No environmental safeguards for off-site tape storage facility**—the current facility is just a storage room without any environmental safeguards that the computer room has. Tapes are just stored on shelves. Some tapes are stored in a fireproof vault.

Business continuity

10. **No campus-wide business continuity plan**—the University needs such a plan to ensure that business units can continue operating and recover information if normal business activities are disrupted. Good practice requires the plan to be based on an analysis of current risks as discussed in item 3 above and their impact on the University's business. Types of risk include financial, operational, public perception and legal. In addition, the CIO can play a key role in developing this plan.

11. **Only partial disaster recovery plan**—the University generally has the capability to recover its systems and data, but very limited capability to recover its hardware. However, it still needs to develop a disaster recovery plan that matches its business continuity plan and identifies and covers critical infrastructure components.

Implications and risks if recommendation not implemented

Without clearly defining the role and responsibilities for the CIO, and without an IT strategic plan and standards for business cases and post-implementation reviews, the University's IT activities may not match its strategic priorities and business goals. In addition, IT infrastructure may not be sufficiently strong and versatile to support current and future requirements of all faculties and administrative units.

Without an implemented risk management plan, management may not identify risks and respond to threats; as a result, it may not achieve its IT business objectives. In case of a disruption to normal business, without an implemented business continuity and disaster recovery plan, restoration of critical applications and business processes may be delayed and essential business services may not be provided.

Without sufficient performance information and targets, IT management may not be able to assess the effectiveness of IT services or monitor progress in achieving its business plan goals.

Without a strong control system over the classification of data, internal control and security awareness training, security over systems and data, and environmental safeguards over media, the University may not be able to guarantee the availability, integrity, and confidentiality of its systems and data.

3.1.2 PeopleSoft security

Recommendation

We recommend that the University of Calgary improve its controls in the PeopleSoft system by:

- **finalizing and implementing the security policy and the security design document, and**
- **ensuring that user access privileges are consistent with both the user's business requirements and the security policy.**

Background

New administrative systems implemented

In April 2004, the University started a three-year project to move several critical business and financial processes to PeopleSoft. PeopleSoft is part of the enterprise administrative systems and is a computer program that will integrate many aspects of the University's operations. It will eventually handle most of the University's major financial processes. In August 2005, the general ledger and materials management modules moved into PeopleSoft. On April 1, 2006, the payroll and human resources modules moved into PeopleSoft. The student administration module is due to move in 2007. The University also created a security design document to outline the process and define the rules for granting users access to the PeopleSoft program.

Criteria: the standards we used for our audit

The University should reduce the risk of unauthorized or inappropriate access to its programs and data by:

- implementing a comprehensive security policy and maintaining a current security design framework for the PeopleSoft control environment.
- controlling access to programs and data by defining and enforcing procedures to identify, authenticate and authorize the use of the University's systems.
- establishing procedures to ensure that only authorized changes are made to user accounts (additions, deletions, changes) and that they are made promptly.
- implementing an effective control process to periodically review the appropriateness of user access rights.

Our audit findings

Security policy needed

1. **Developing and implementing the enterprise administrative systems security policy**—the University has not implemented a security policy for its enterprise administrative systems. PeopleSoft has been operating since August 2005; more modules are due to move from development to operations in the next two years.

Update security design document

2. **Updating the PeopleSoft security design document**—the security design document was partly developed in September 2005. However, key sections of it remain incomplete, for example, the description of roles and the documentation of all valid permission lists. As well, the document does not reflect current practices. The lack of a current security design document makes it more difficult for University management to manage security and train new staff.

Control access

3. **Controlling access to the PeopleSoft application and restricting the user roles and the functions users can perform**—too many users have broad roles and functions that exceed the needs of their current positions. PeopleSoft assigns privileges based on "roles," which are logical groupings of individuals related to their type of work. For example, manager, administrator, and developer are all "roles". We identified 47 users who were assigned more than 15 roles. We found 108 active roles in PeopleSoft. Of these 108 roles, some users are assigned up to 33 roles—31% of all possible roles—even though they worked in only one area, such as project costing. We discussed with the security management group the profiles of 5 users who had between 16 and 33 roles. The group agreed that these users had too many roles and proper segregation of duties may not exist.

Limit privileges over data changes

4. **Limiting the number of users authorized to change PeopleSoft data, both current and historical**—we identified 353 users who could change PeopleSoft data without the system showing the changes. We found no supporting documentation or business reason explaining why so many users had this privilege. Nor did we identify control processes over the use of this change authority. Good practice is for management to restrict the ability to make such changes to just the users who need to perform the function. Management also needs to implement an appropriate control system over such powerful change authority.

Timely updates user access needed

5. **Developing security procedures to update access when people change jobs**—management did not update user access as the project team completed its first implementation phase and employees changed jobs. For example, we reviewed the access privileges of 4 of the 47 users (referred to in item 3 above), with the University's security management team. All 4 users had changed jobs, but their access had not changed to match their new job requirements. Good practice is to update access security immediately when a person changes jobs.

Implications and risks if recommendation not implemented

- The lack of clearly defined security roles and responsibilities may impede the development and enforcement of good security practices.

- Poor access controls may result in unauthorized access to confidential data, and the accidental or deliberate destruction or alteration of data. Poor controls may also lead to unauthorized release of confidential information.
- Unauthorized transactions and data could be entered into the system. As well, the University may not detect unauthorized changes to valid transactions or data impairing the performance of PeopleSoft and causing financial loss to the University.

3.1.3 Campus security services

Recommendation

We recommend that the University of Calgary Campus Security Services (CSS) improve processes to:

- **track open investigative files by key dates and responsibilities**
- **record detailed evidence on investigative files, particularly in cases of arrest or detention**

Background

CSS responds first on University property to matters typically dealt with by the police in other communities. However, it is not a police service under the *Police Act*. CSS staff are University employees who provide private security services to the University to prevent crime through programs designed to promote a safe community. CSS has 36 security staff with no special powers under provincial laws, and with limited powers of arrest similar to those of a private citizen or landowner under the *Criminal Code*. CSS staff are not Special Constables under the provincial *Police Act*.

Criteria: the standards we used for our audit

The University should have systems to:

1. record, assess and prioritize complaints.
2. improve community safety through programs designed to reduce crime.
3. carry out enforcement activities in accordance with applicable law.
4. meet the operational needs of recruiting, retaining and training CSS members.

Our audit findings

The University partly met the first and third criteria and fully met the remaining criteria. It has:

- a comprehensive crime prevention program to educate students and employees of possible risks to their safety and security.
- an adequate process for recruiting, retaining, and providing basic training for CSS members.

However, it needs to establish better controls for recording complaints to ensure follow-up work on open files is complete by a set date.

CSS arrested 48 people in 2005. From our review of arrest files; we had no concerns about the legality of these arrests. Arrested people went to the CSS office and stayed in a lock-up facility waiting for Calgary Police to arrive. However, in the majority of cases, we could not assess how long people remained in CSS custody. CSS did not consistently record times of the arrest, reading of legal rights, or transferring of custody to the Calgary Police. CSS needs to document these times.

Implications and risks if recommendation not implemented

Without adequate systems to track matters requiring follow-up or to maintain sufficient documented evidence on arrest files, CSS may:

- not follow up on important issues, resulting in civil liability and embarrassment for the University.
- incur civil liability because of insufficient evidence to defend itself against allegations of things such as improper arrest.

3.1.4 University of Calgary internal control systems—satisfactory progress

Background

Weaknesses in internal controls

In our *2002–2003 Annual Report* (No. 35—page 238) we recommended that the University of Calgary improve its internal control systems.

Our audit findings

Internal controls improved

In 2006, the University continued to make satisfactory progress improving the system of internal controls. Senior management gave internal controls a high priority. Management focused on the design of internal controls in the new PeopleSoft systems. The control environment improved in August 2005, after the University implemented PeopleSoft modules for the general ledger, supply chain management (SCM), project costing, asset management and billing. For example, the University implemented new processes for automating approvals in PeopleSoft. In addition, it improved the budget and reporting systems. As a result, the University could generate quarterly financial reports.

However, while new PeopleSoft systems are deployed over the next two years, internal control deficiencies still exist in business processes relating to the legacy systems. This year, we found deficiencies in the University's processes for account reconciliations.

What remains

To finish implementing this recommendation, the University must

- identify and resolve remaining gaps and deficiencies in internal controls
- put appropriate controls in place to mitigate internal control deficiencies in the legacy systems
- develop remaining key policies and processes
- put processes in place to monitor and enforce compliance with stated control requirements

3.1.5 Prior-year recommendations in research management—not assessed

Below is a list of our other past recommendations.

Year and reference	Topic
2004–Page 254	Research measures and targets
2004–Page 257	Controls over sponsored research and trust accounts
2004–No. 26	Planning for research capacity
2005–No. 18	Research roles and responsibilities
2005–Page 94	Accounting for research revenue and expenditures
2005–Page 91	Research policies
2005–Page 92	Project proposals
2005–Page 93	Project management

Next year, we will follow up on these recommendations.

3.1.6 Application development methodology at University of Calgary—satisfactory progress

Background

In our *2001–2002 Annual Report* (No. 44—page 207) we recommended that the University of Calgary implement a formal methodology to design, develop, implement, test and maintain software applications. Last year, we reported that the University made satisfactory progress implementing the recommendation. It applied formal methodology, but only in developing its new financial systems.

Our audit findings

New project office will monitor

This year, the University continued making satisfactory progress implementing the recommendation.

The University applied formal application development methodology to develop its new PeopleSoft financial systems. However, it applied only some disciplines of this methodology, such as user acceptance testing, to its new non-financial systems. For future projects, management confirmed that it will instruct its project office to ensure that application development methodology is formally documented and consistently applied.

What remains

To finish implementing this recommendation, the University must show it has a complete and formally documented application development methodology for all aspects of its business. It must also show that it is consistently applying the methodology. Next year, we will follow up and report on this.

3.1.7 Capital construction projects at the University of Calgary—not assessed

In our *1999–2000 Annual Report* (No. 38—page 233) we recommended that the University of Calgary improve its capital project management systems by ensuring that project proposals fit with the long-term campus plan. We further recommended that project management controls be strengthened. In 2004, the University implemented the first part of the recommendation. Last year, we found that the University made satisfactory progress strengthening project management controls. In 2006–2007, we will follow up to confirm the University implements this part of the recommendation. We will also report the status of the recommendation.

3.2 University of Alberta

3.2.1 Campus Security Services

Recommendation

We recommend that the University of Alberta hire a third party to conduct an independent program assessment of Campus Security Services (CSS)—including a review of the protocol agreement between CSS and the Edmonton Police Service—to ensure that CSS complies with the law and employs good enforcement practices.

Background

CSS is not a police service under the Police Act. CSS staff are University employees who provide private security services to the University to prevent crime through programs designed to promote a safe community. However, it also acts as a first responder on University property for matters the police typically deal with. CSS employs 25 staff members who are private security guards but are also designated as Special Constables under the provincial *Police Act*. This designation allows them to provide security and enforce six provincial laws on University property. CSS Special Constables have powers of arrest under these provincial laws, and also have limited powers of arrest—similar to those of a private citizen or landowner—under the *Criminal Code*.

Criteria: the standards we used for our audit

The University should have systems to:

1. record, assess and rank complaints, complete reports, and carry out enforcement activities consistent with applicable laws.
2. improve community safety through programs to reduce crime.
3. meet the operational needs of recruiting, retaining, and training CSS members.

4. ensure that CSS reports its performance annually to University senior management, and that CSS goals and performance meet the University's goals.

Our audit findings

The University partly met the first criterion and met each of the other criteria. It has:

- a comprehensive crime prevention program to educate students and employees of possible risks to their safety and security.
- an adequate process for recruiting, retaining, and providing basic training for CSS members.
- an appropriate, high-level annual reporting process to senior University management.
- a system to record, assess and rank complaints and complete reports.

However, we have several concerns about CSS carrying out enforcement activities. In our opinion, CSS has an enforcement strategy that appears to target people not associated with the University. CSS enforcement files show checks for smoking, having no bell on a bicycle, walking outside of marked pedestrian crossing, loitering, and littering.

Our findings are based on our interpretation of the law. We recognize that the law remains to some degree open to interpretation, and the University has a different interpretation.

CSS may have improperly used their powers of enforcement

During 2005, CSS Special Constables arrested 258 people under various provincial laws. In some cases, those arrested also had outstanding *Criminal Code* warrants; however, CSS has no jurisdiction to arrest for *Criminal Code* warrants. It appears to us, CSS improperly used their powers of enforcement under provincial statutes to facilitate an arrest by Edmonton Police Service for outstanding *Criminal Code* warrants. A majority of these people were physically searched and placed in a lock-up facility in the CSS office. They spent between 10 minutes and six hours in the lock-up facility. However, Alberta's *Police Act* requires Special Constables to use a lock-up facility operated by the local police service; they cannot operate their own lock-up facility. The Alberta Solicitor General administers the *Police Act* and requested CSS to stop using its lock-up facility in February 2006. CSS complied with this request.

Possible delays in providing legal rights

There were several incidents where persons were lawfully arrested but were not provided their legal rights under section 10 of the Charter of Rights and Freedoms at the time of the arrest. Their legal rights were being provided when they were being placed into the lock-up facility. The files reviewed could not account for the reason in the delay in providing the legal rights.

Insufficient supporting documentation for detention of some individuals

Of the 258 people arrested 24 were placed in the lock-up facility for a period ranging from 18 to 90 minutes. Most of these persons were released either unconditionally or upon the issuance of a summons. Drawing on the contents of the files in many of these cases, we were unable determine the reason for the detention of these individuals. We are therefore concerned that placing individuals in the lock up facility was primarily to allow CSS member time to prepare the summons or other documentation.

There were eight cases where persons were arrested for public intoxication and were released unconditionally within one hour. These individuals were not turned over to the care of a responsible person. The *Gaming and Liquor Act* allows an individual to be released at any time into the custody of a person who undertakes to take care of the intoxicated person in the event they do not have sufficient capacity to be released on their own. If the individuals were intoxicated to such an extent to be taken into custody in the first place, it seems unusual that all of them would be ready to be released on their own within one hour.

Non-compliance with *Gaming and Liquor Act*

There were 11 cases where persons were arrested for public intoxication and lodged in the lock-up facility. These same individuals were then issued a summons for public intoxication under section 115 of the *Gaming and Liquor Act*, which states an intoxicated person can either be taken into custody or issued a summons, but not both. In these cases the persons were taken into custody and issued a summons.

No system to monitor and review agreement with Edmonton Police Service

CSS has a protocol agreement with the Edmonton Police Service stating that CSS "will respond and evaluate courses of action for *Criminal Code* offences on University property." This may improperly imply that CSS has the authority to conduct preliminary *Criminal Code* investigations. There is no system in place to monitor and review this agreement by CSS to ensure that it accurately prescribes the limits and extent of CSS's legal authority.

In summary, we found:

- adequate procedures in place for crime prevention, human resources and reporting to the University
- enforcement powers conferred on CSS members under provincial statutes were, in our opinion, improperly used to arrest and detain individuals to enable Edmonton Police Service to attend and enforce outstanding *Criminal Code* warrants.
- the *Police Act* and section 10 of the *Charter of the Rights and Freedoms* may have been violated:
- *Gaming and Liquor Act* was not complied with.

Implications and risks if recommendations not implemented

The University needs assurance that the Campus Security Services is performing their duties within the parameters of the legal system. Failing to perform at that level could bring exposure to civil liability and discredit to the University.

3.2.2 Internal control systems—satisfactory progress

Background

In our *2002–2003 Annual Report* (No. 34—page 235) we recommended that the University of Alberta improve its system of internal control.

Our audit findings

The University implemented new policies and progressed internal control assessments

The University made satisfactory progress implementing this recommendation. The University developed 16 new policies on administration and accounting and provided training on these policies to accounting personnel in departments. The internal control assessment initiative has progressed by Internal Audit doing a review and refinement of the internal control assessment template. Internal Audit also prepared an engagement plan for completing internal control assessments, which Financial Services is reviewing. The engagement plan describes the project background, objectives, approach, roles and responsibilities, resources and timing. The target is for the majority of University departments to complete the control assessment templates as at March 31, 2007 by May 31, 2007.

Planning further improvements to control systems

In addition, the University hired a consultant to prepare an *Implementation of Internal Control Framework* plan. This plan produced recommendations to eliminate control environment gaps, based on best practises. The consultant also prepared a preliminary Sarbanes Oxley assessment. This assessment produced a listing of key financial controls that the University could consider. The assessment will be useful in finalizing the internal control assessments, directing internal audit activities, and generally in making improvements in the overall internal control systems.

What remains

To finish implementing this recommendation, the University must:

- implement the remaining detailed control recommendations from past attest audits that were classified as satisfactory progress this year;
- finalize the internal control assessment template and carry out the assessments at the University's departments; and
- identify, prioritize, and remediate all significant remaining gaps and deficiencies in internal controls as identified by the internal control assessments and the consultant's Implementation of Internal Control Framework plan.

While we believe the University is continuing to make satisfactory progress on improving its internal control systems, this area still requires the support of University senior management to ensure that appropriate resources will exist to resolve this issue.

3.2.3 Net assets—not assessed

We plan to follow up this recommendation next year.

3.3 Lakeland College

3.3.1 Budget monitoring—implemented

Background

In 2004–2005 (page 102) we recommended that the College improve its control over monitoring its budget.

Our audit findings

Management compares monthly budgets to actual results and follows up any large differences with the appropriate department. Each quarter, management provides the College's Board with the year–to-date actual results. The Board receives explanations for variances from budget. The Board also receives a forecast of actual results.

3.3.2 fire etc. (Emergency Training Centre) billing processes—implemented

Background

In 2004–2005 (page 103), we recommended that fire etc. (Emergency Training Center) implement adequate billing processes so that students are accurately billed when they register for a program and overdue accounts can be followed up promptly. fire etc. amalgamated with Lakeland College on July 1, 2004.

Our audit findings

This year, the College put processes in place to accurately record and properly manage revenues and receivables.

3.4 Grant MacEwan College

3.4.1 Financial processes—not assessed

3.4.2 Computer control environment—not assessed

We will follow up on these recommendations next year.

3.5 Athabasca University—Information Technology Strategic Planning for Administrative Systems

3.5.1 Information technology planning and governance—not assessed

3.5.2 Cost tracking system—not assessed

We plan to follow up on these recommendations next year.

3.6 Performance reporting—post-secondary institutions

Oval's reservation of opinion

Our auditor's report on financial information of the Olympic Oval/Anneau Olympique, operated by the University of Calgary, has a reservation of opinion because the statement of base operating costs and revenue does not include all of the revenues and expenses for maintaining, managing and operating the Oval facility. We could not reasonably determine the amount of excluded revenues and expenses.

Agriculture, Food and Rural Development

Summary: what we found in our audits

Systems

Food safety—see Volume 1, page 63.

The Department should:

- verify eligibility for the Farm Fuel Benefit program—see page 37 and the Canada-Alberta Fed Cattle Set Aside program—see page 39.
- develop an information technology security policy and monitor compliance with it—see page 40.

Performance reporting

Our auditor's reports on the financial statements of the Ministry and the Department are unqualified.

We found two exceptions when we completed specified auditing procedures on the Ministry's performance measures—see page 42.

Other entities that report to the Minister

- Systems—Agriculture Financial Services Corporation
  The Corporation should improve information system security—see page 43. The Corporation still needs to implement and comply with its policies and procedures for the Canadian Agricultural Income Stabilization program—see page 44. The Corporation also needs to implement its new policies for the Alberta Farm Lending program which replaced the Beginning Farmer Loan program—see page 45.

- Performance reporting
  Our auditor's report on the financial statements of The Agriculture Financial Services Corporation is unqualified.

Overview of the Ministry

Ministry entities

The Ministry consists of the following entities:

- Department of Agriculture, Food and Rural Development
- Agriculture Financial Services Corporation
- Agricultural Products Marketing Council
- Alberta Grain Commission
- Farmers' Advocate of Alberta
- Irrigation Council

3 core businesses

The Ministry's 2005–2008 business plan includes three core businesses:

- facilitate sustainable industry growth
- enhance rural sustainability
- strengthen business risk management

Ministry received $576 million

The Ministry received $576 million in revenue in 2005–2006. Its largest revenue sources are:

	(millions of dollars)
Transfers from the Government of Canada	299
Premiums from insured persons	142
Interest and investment income	83
Fees, permits, licenses, and other revenue	30

Ministry spent $1.105 billion

In 2005–2006, the Ministry spent $1.105 billion. Its largest expenditures are:

	(millions of dollars)
Farm income support	492
Insurance	255
Industry development	86
Sustainable agriculture	57
Debt servicing costs	45
Planning and competitiveness	44
Farm fuel distribution allowance	33

For more detail on the Ministry, visit its website at www.agric.gov.ab.ca.

Scope: what we did in our audits

1. Systems

   We examined the Department's:

   - systems for verifying eligibility for the Farm Fuel Benefit program and the Canada-Alberta Fed Cattle Set Aside program.
   - information technology security practices.

We also examined the Department's systems for delivering food safety programs.

We followed up our recommendation from the *2004 Report on the Alberta government's BSE-related assistance programs* on completing a risk assessment.

2. Performance reporting

We audited the financial statements of the Ministry and the Department for the year ended March 31, 2006. We also completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

At the Agriculture Financial Services Corporation, we:

- examined the Corporation's information technology system security.
- followed up our 2004–2005 recommendations on the beginning farmer loan program and improving controls over the administration of the Canadian Agriculture Income Stabilization program.
- audited the financial statements of the Corporation.
- completed compliance audits for the federal government.

The Agricultural Products Marketing Council, Alberta Grain Commission, Farmers' Advocate of Alberta and Irrigation Council do not produce separate financial statements but are the responsibility of the Minister. The financial results of these four entities are included in the Department's financial statements.

Our audit findings and recommendations

1 Systems

1.1 Verifying eligibility for Farm Fuel Benefit program

Recommendation No. 24

We recommend that the Department of Agriculture, Food and Rural Development improve its administration of the Alberta Farm Fuel Benefit program by:

- **verifying information on completed program application forms, and**
- **requiring applicants to regularly renew their registration in the program.**

60,000 registered in the program

Background

The Alberta Farm Fuel Benefit program is designed to offer fuel to Alberta farmers at prices competitive with those paid by farmers in other parts of North America. There are 60,000 individuals registered in the program.

The *Fuel Tax Act* and *Fuel Tax Regulation* authorize the program, which has two parts:

Fuel allowance - $34 million/year

- an Alberta Farm Fuel Distribution Allowance (allowance) that reduces the cost of marked diesel fuel by 6 cents a litre. The annual direct cost of the allowance to the Department is about $34 million.

Fuel tax exemption - $72 million/year

- a fuel tax exemption (exemption) that allows farmers to buy marked diesel fuel and gasoline without paying the provincial fuel tax of 9 cents a litre and marked propane without paying the marked propane fee of 6.5 cents a litre. The annual opportunity cost of the exemption to Alberta Finance is approximately $72 million, meaning that Alberta loses $72 million tax it would collect each year if the program didn't exist.

Program eligibility defined in *Fuel Tax Regulation*

The eligibility criteria for the program are defined in the *Fuel Tax Regulation*. Eligibility is based on applicants' declaring they have met the eligibility criteria, which include being actively involved in farming in Alberta, with gross annual farm income of at least $10,000. Applicants who complete the declaration get a certificate and are eligible for both the exemption and the allowance.

Farm fuel certificates expire

The *Farm Fuel Regulation* states that certificates expire on the earliest of:

- the expiry date shown on the certificate,
- the date the certificate holder ceases to conduct activities that qualified the person to obtain the certificate, or
- the date the certificate is cancelled by the Minister.

Minister responsible for deciding eligibility

Under the *Fuel Tax Act*, the Minister of Agriculture, Food and Rural Development is responsible for accepting applications and assessing eligibility for the program. The Department issues certificates to eligible applicants, which allows individuals to possess marked fuel for farming operations. The Department also maintains a database of certificate holders. Marked gasoline and diesel fuel are colored to distinguish them from regular gasoline and diesel fuel.

Finance assesses use

Alberta Finance is responsible for assessing if marked gasoline and diesel fuel are used and distributed in accordance with the *Fuel Tax Act* and *Fuel Tax Regulation*. Alberta Finance is also responsible for issuing certificates to possess marked fuel for non-farming operations under the *Fuel Tax Act*.

Multiple users of Department's farm fuel database

Alberta Finance uses the information in the Department's farm fuel benefit database to monitor use of the benefit. Bulk fuel dealers use it to confirm eligibility for discounted fuel. Alberta Registries also uses the database to assess if vehicles are eligible for farm license plates and lower vehicle registration fees.

Criteria: the standards we used for our audit

- Processes should be in place to ensure that only eligible applicants receive the benefits of Department programs.
- The Department should have a process to identify when a person no longer meets program requirements.

Our audit findings

No process to determine program eligibility

The Department does not verify the information in application forms before issuing a certificate. Nor does it have any other processes to ensure that only eligible individuals get certificates—or to identify people who become ineligible.

Renewal process not completed since 1997

Program application forms state that a registration renewal is completed every three years and registrants must submit confirmation of their continued program eligibility then. However, the Department has not completed a renewal process or requested confirmation of eligibility from registrants since 1997. The *Farm Fuel Regulation* gives the Minister authority to extend the expiry date on certificates. That is what the Department has done for the past nine years—instead of a renewal.

Implications and risks if recommendation not implemented

The fuel tax allowance and exemption may go to ineligible people.

1.2 Verifying eligibility for the Canada-Alberta Fed Cattle Set Aside program

Recommendation

We recommend that the Department of Agriculture, Food and Rural Development finish verifying if participants complied with the time requirements of the Canada-Alberta Fed Cattle Set Aside program and decide if further action is necessary.

Background

Department paid $35 million for cattle set aside program

In 2005–2006, the Department paid grants to applicants under the Canada-Alberta Fed Cattle Set Aside program. Applicants had to hold back cattle from slaughter for at least 91 days from the program enrolment date. Program participants could release animals from set aside on July 18, 2005 because the Canada—United States border then reopened to live-cattle trade for cattle younger than 30 months. The Department paid out $35 million over two years the program was in place for 260,000 animals.

Criteria: the standards we used for our audit

The Department should monitor applicant's compliance with program eligibility criteria.

Our audit findings

Animals sampled to assess compliance with set-aside period

The Department requested tag data for 1,330 animals in the program from the Canadian Cattle Identification Association (the Association) to assess if producers complied with the 91-day set-aside period. All tags are required to be returned to the Association after animals have been slaughtered. The Association then retires the tag.

No review and follow up of results

The Department received tag data for 1,330 animals. It compared the Association's retirement dates for tags with its own data to assess if applicants complied with the set-aside period. The Department has not yet reviewed the results of the reconciliation and followed up any anomalies.

Implications and risks if recommendation not implemented

The Department may fail to identify and recover payments to ineligible applicants.

1.3 Developing and monitoring compliance with an information technology security policy

Recommendation

We recommend that the Department of Agriculture, Food and Rural Development:

- **document, approve, and communicate to employees and contractors its information technology security policies and standards.**
- **implement a process to monitor compliance by employees and contractors with information technology security policies and standards.**

Background

Information technology security policies and standards make employees and contractors aware of the rules for accessing the Department's information technology and information assets.

Criteria: the standards we used for our audit

The Department should:

- have approved information technology security policies and standards for employees and contractors who access its information technology and information assets.
- and communicate these policies and standards to employees and contractors and monitor their compliance.

Our audit findings

The Department does not have an information technology security policy or monitoring practices.

We found the following weaknesses in the Department's information technology security practices:

No password policy

- **Password controls**—we found no evidence of a documented password policy when we reviewed the Department's computer access controls.

No controls over unauthorized software

- **Use of software**—the Department does not restrict users from installing unauthorized software.

No acceptable use policy

- **Acceptable use policy**—we found no evidence of a documented acceptable use policy which sets the limits of what employees can use their computers for.

Implications and risks if recommendation not implemented

The Department exposes its information technology and information assets to unauthorized access and security risks by not having an information technology security policy in place.

1.4 Report on the Alberta government's BSE-related assistance programs

1.4.1 Risk assessment—satisfactory progress

Background

Management agreed to do risk assessment

In our *2003–2004 Annual Report* (No. 3—page 80), we recommended that the Department complete a risk assessment that analyzes the probability and impact of major risks to the agriculture and Agri-food industry in Alberta. We also recommended that the Department develop risk mitigation and response strategies based on the risk assessment. Management agreed to complete a risk assessment by November 2005.

Our audit findings

Draft risk assessment developed

The Department has made satisfactory progress. The risk assessment working group developed a draft risk assessment for Alberta's agriculture and Agri-food sector, but it has not been finalized or approved by the Department's Executive Committee. To finalize the draft risk assessment, the Department must conclude on the accuracy and completeness of the risks it identifies and review the conclusions it makes.

What remains

To finish implementing this recommendation, the Department needs to:

- finalize its risk assessment,
- integrate its risk assessment processes with its other strategic and business planning processes, and
- ensure existing measures minimize significant risks identified. If the Department does not have risk mitigation strategies in place for significant risks identified, it should develop them.

1.4.2 Measurable targets—not assessed

In our *2003–2004 Annual Report* (No. 4), we recommended that the Department establish measurable targets for its emergency financial assistance programs. There were no new emergency financial assistance programs in 2005–2006. We will monitor this aspect of any new emergency financial assistance programs developed.

1.5 Grant management system—not assessed

Evaluate performance of grant programs

In our *2004–2005 Annual Report* (No. 20), we again recommended that the Department evaluate performance of its grant programs in meeting Ministry goals. This includes evaluating the actual grant programs, as well as specific grants under the programs.

We will follow up on the recommendation in 2008.

1.6 Performance measurement system—not assessed

In our 2002–2003 Annual Report (No. 3), we recommended the Ministry improve its performance measurement system by:

- reviewing its goals and performance measures to ensure that they reflect the results that the Ministry wants to achieve, and
- strengthening the process that the Ministry uses to compile its performance measures.

We will follow up on the recommendation next year.

2. Performance reporting

2.1 Financial statements

Unqualified auditor's report

Our auditor's reports on the Ministry and Department financial statements for the year ended March 31, 2006 were unqualified.

2.2 Performance measures

We found two exceptions when we completed specified auditing procedures on the Ministry's performance measures.

- Data was not reported for the measure titled, (Percent of Alberta Production produced under a farm food safety programs: beef feedlots).
- There were errors arising from inconsistencies in the processes to compile research and development investment data for the measure *Research and Development (R&D) Investment by Collaborators Leveraged through Ministry Resources.*

As a result, we were unable to complete our specified auditing procedures for these two measures.

3. Other entities that report to the Minister

3.1 Systems—Agriculture Financial Services Corporation

3.1.1 Information technology security

Recommendation

We recommend the Agriculture Financial Services Corporation improve:

- **employee information system security awareness.**
- **monitoring employee compliance with its computer access policies and procedures.**

Background

The Corporation's *Protection of Information in Computer Systems Policy* (the Policy) defines appropriate and inappropriate use of computers, email, and internet, as well as procedures for passwords, backups, and security reviews.

Criteria: the standards we used for our audits

The Corporation should ensure that:

- users of its information systems are aware of and comply with security policies and procedures.
- computer system access is restricted, authorized, adequately segregated and periodically reviewed.

Our audit findings

IT security weaknesses

We examined the Corporation's information technology systems and found instances of the following security weaknesses:

- employees wrote passwords on post-it notes and attached them to their monitor stands.
- employees were unaware that the Corporation logs their computer activities.

Inappropriate access to computer systems

We also examined access controls for the Corporation's computer application systems and found that:

- four employees had access privileges that allowed inappropriate segregation of duties. For example, one employee was able to both enter and approve entries to the accounting system.
- two employees had access privileges that they did not need to perform their job duties.
- no monitoring is in place to ensure system owners complete periodic access reviews that the Policy requires.

Implications and risks if recommendation not implemented

Weak security practices and inappropriate access to computer information increase the risk of unauthorized access to and the loss critical information technology and corporate information.

3.1.2 Administering the Canadian Agriculture Income Stabilization program—satisfactory progress

Background

In our *2004–2005 Annual Report* (No. 23, page 120), we recommended AFSC improve controls over the administration of the Canadian Agriculture Income Stabilization program by:

- documenting its policies and procedures.
- strengthening its claim verification procedures.
- maintaining sufficient documentation on file.
- developing criteria for waiving the application of the structural change[1].
- developing criteria to identify high-risk participants.
- testing spreadsheets before implementing them.

Our audit findings

Improvement in CAIS internal controls

The Corporation made a number of internal control improvements to the administration of the Canadian Agriculture Income Stabilization Program (CAIS) including:

- documenting and implementing CAIS policies and procedures.
- developing guidance on declaring a disaster, for structural change purposes, and when it is appropriate to waive a structural change.
- creating a Program Cross Compliance and Investigations unit to establish criteria to identify high-risk participants.
- working with the Department to access complete BSE information.

CAIS controls improved but some deficiencies continue to exist

We found that program documentation and data entry improved; however, the following control deficiencies persist:

- reasonability tests—in 6 of the 40 claims we examined, the Corporation did not explain variances from the reasonability tests that exceeded thresholds or the reasonability test was not completed at all.
- documentation trails—for 2 of the 40 claims, we were unable assess how the Corporation determined certain amounts used in the calculation.
- use of spreadsheets—the Corporation has not defined the spreadsheets that must be tested—before use.

Control weaknesses to be improved in new CAIS computer application

The Corporation will rectify two control weaknesses by implementing the new CAIS computer application system, which will be used to process claims from 2005 and later. System controls to be implemented and improved include:

- reasonability test reporting on claim verification results.
- sharing common information between the CAIS, insurance and lending computer application systems to assist with claim verification.

[1] A structural change is defined as a change in ownership, business structure, size of farm operation, farming practice, type of framing activity, accounting methods, or any other practice that alters the margins or the potential profit of the farming operation. A structural change adjustment provides an even basis for comparing current year data to data from the past five-years.

What remains

To finish implementing this recommendation, the Corporation needs to:

- implement and comply with the policies and procedures, including improving the documentation of reasonability test variances and calculation amounts.
- implement the new CAIS computer application system.
- develop criteria for identifying high-risk CAIS participants.
- test spreadsheets used to calculate payments—before using them.

3.1.3 Alberta Farm Loan program (formerly Beginning Farmer Loan program)—satisfactory progress

Background

In our *2004–2005 Annual Report* (No. 21 and No. 22), we recommended that AFSC:

- clearly define program eligibility criteria and improve controls over awarding beginning farmer loans, and
- improve program administration and management

Effective April 1, 2006, the Corporation replaced the Beginning Farmer Loan (BFL) program with the Alberta Farm Loan (AFL) program.

Our audit findings

Eligibility for interest rate incentive defined

Program eligibility—the AFL program offers a 1.5% interest rate reduction for the first five years as a beginning farmer incentive. To assess if an applicant qualifies for the incentive, the Corporation uses the applicant's net worth at the time of application.

Lending procedures manual revised

Controls for awarding loans—the Corporation has updated the lending division procedures manual (the Manual). The Manual includes updated procedures for monitoring arrears, including documentation requirements, to show the monitoring stages. To ensure applicants have met program eligibility criteria, and sufficient documentation in the loan file shows this, the Manual requires a post-approval management review. The Corporation also completed internal and external reviews of the loan program fees.

Program administration and management—to improve program administration and management the Corporation:

Steps taken to improve program management

- restructured the lending division. As part of this, the Corporation analyzed the number of lending staff required and developed workload measures for the lending account managers.
- included a question on the BFL program objectives in the 2006 survey of customer satisfaction. Once the new AFL program starts, the Corporation needs to decide how to evaluate program results.
- now provides senior management with quarterly updates on the status of the operational plan.

What remains

To finish implementing this recommendation, the Corporation needs to:

- implement the new policies and procedures for the AFL program.
- define the documentation requirements to confirm a borrower's financial condition and support the lending decision.
- analyze the BFL program results from the customer survey and decide how to evaluate AFL program results, particularly for the beginning farmer incentive.

3.2 Performance reporting—Agriculture Financial Services Corporation

Unqualified auditor's opinion

Our auditor's report on the Corporation's financial statements for the year ended March 31, 2006 is unqualified.

3.3 Other audits—Agriculture Financial Services Corporation

Unqualified auditor's reports

At the request of the Agriculture Financial Services Corporation, we audited the following schedules related to the Canadian Farm Income Program. Our unqualified auditor's report was addressed to Agriculture and Agri-Food Canada.

- Administrative costs incurred and charged by the Corporation for the period ended March 31, 2005.
- Advances received under the program by the Corporation as at January 24, 2006.

Children's Services

Summary: what we found in our audits

Performance reporting

Our auditor's reports on the financial statements of the Ministry, Department, and 10 Child and Family Services Authorities are unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures—see page 48.

Overview of the Ministry

The Ministry consists of the Department and 10 Child and Family Services Authorities (Authorities). The Department supports the Authorities, and co-ordinates provincial programs such as the *Prevention of Family Violence* program. The Authorities encompass the different regions of the province and deliver most of the Ministry's services.

Three core businesses

The Ministry's 2005–2008 business plan describes three core businesses:

- promoting the development and well-being of children, youth and families
- keeping children, youth and families safe and protected
- promoting healthy communities for children, youth and families

Ministry spent $819 million

In 2005–2006, the Ministry spent $819 million, of which the Authorities spent $598 million. The following programs are significant expenses:

	(millions of dollars)
Child intervention	411
Services to children with disabilities	89
Child care	78
Family and community support	66
Program support services	42
Early intervention	31
Prevention of family violence	29

Ministry received $310 million

The Ministry had $310 million in revenue in 2005–2006; $263 million of this came from the following transfers from the federal government:

	(millions of dollars)
Canada Social Transfer	163
Early Learning and Child Care	70
Children Special Allowance	18
Service to On-reserve Status Indians	12

For more details on the Ministry, visit its website at www.child.gov.ab.ca.

Scope: what we did in our audits

1. Systems

   We followed up our previous recommendations relating to timely contract approval, expense recoveries of First Nation costs, strategic management information systems, program support services, and availability of data for performance measures.

2. Performance reporting

   We audited the financial statements of the Ministry, the Department, and the following 10 Authorities for the year ended March 31, 2006:

   1. Southwest Alberta Child and Family Services Authority
   2. Southeast Alberta Child and Family Services Authority
   3. Calgary and Area Child and Family Services Authority
   4. Central Alberta Child and Family Services Authority
   5. East Central Alberta Child and Family Services Authority
   6. Edmonton and Area Child and Family Services Authority
   7. North Central Alberta Child and Family Services Authority
   8. Northwest Alberta Child and Family Services Authority
   9. Northeast Alberta Child and Family Services Authority
   10. Métis Settlements Child and Family Services Authority

   We completed specified auditing procedures on the Ministry's performance measures.

Our audit findings and recommendations

1. Systems

1.1 Timely contract approvals—satisfactory progress

Background

Contracts signed too late

Last year, we recommended that the Ministry sign contracts (whether new or renewal) before contractors supply goods or services. The Ministry had signed contracts after services started or after existing contracts expired.

Many contracts to provide services

The Department and the Authorities annually enter into and manage contracts to:

- deliver services to children and families such as group homes, residential treatment facilities and women's shelters.
- receive administration services such as information technology maintenance and operation, and consulting services.

Our audit findings

Improvement by Ministry

The Ministry is making satisfactory progress implementing the recommendation. Authorities started their negotiations with agencies earlier and started to tender some of their contracts for more than one year. This year's results of our testing at the Ministry improved on last year's. The Department is working with Authorities to update the contract templates by including a clause allowing a transition period to renew contracts. In addition, Authorities plan to enter into longer-term contracts.

What remains

To fully implement this recommendation, the Department and Authorities should finalize the templates and use them, and sign new contracts before services start.

1.2. First Nation expense recoveries—satisfactory progress

Background

Department reimburses Authorities for on-reserve costs; then recovers them from federal government

The Authorities sometimes deliver services to children and families ordinarily resident-on-reserve. The Department reimburses the Authorities for the costs of delivering these services, and then recovers these costs from Delegated First Nation Agencies or the federal government.

Ministry need to assure it recovers costs

In our *2001–2002 Annual Report* (No. 7—page 51), we recommended that the Ministry of Children's Services improve its systems to recover expenses for providing services to children and families ordinarily resident-on-reserve. The Ministry did not have adequate processes to ensure it recovers all costs that the Authorities incurred, from Agencies or the federal government. We repeated the recommendation in our *2002-2003* and *2004–2005 Annual Reports*.

Our audit findings

Satisfactory progress. Department transferred responsibility to Authorities

The Ministry is making satisfactory progress implementing the recommendation. The Ministry worked with Agencies to clarify what cost are recoverable under the agreement. Effective April 1, 2006, the Department transferred responsibility to Authorities to invoice Agencies directly for costs of delivering services to children and families ordinarily resident-on-reserve. The Department developed standard invoice templates that Authorities use to invoice Agencies.

New rate for administration costs

The Ministry worked with Agencies to set a standard rate to bill them for administration costs. The Department will continue to recover the costs from the federal government.

However, the following errors and areas for improvement remain:

Costs transferred late to Authorities

- The Department received invoices throughout the year from a Delegated First Nation Agency for services to children who are ordinarily resident-off-reserve, and thus the Authorities' financial responsibility. However, the Department did not inform the affected Authorities of potential increased costs until approximately one month after year-end. We understand that the actual costs for one Authority were approximately $1 million more than it originally forecasted. Such a delay in informing Authorities impairs their ability to accurately forecast operating results.

Several un-reconciled differences

- A reviewed and approved reconciliation of off-reserve costs contained several errors. For example, the opening balance did not match last year's closing balance, the summary of the year's transactions did not match the detailed support (out by $152,000), the account balance for one Agency did not match the supporting spreadsheet of the Agency's account (out by $51,600), and an un-reconciled difference of $98,292 existed between the accounts receivable balance from Authorities and the accounts payable balance to Agencies.

What remains

To fully implement the recommendation, the Department must document the controls for First Nation Services and finalize process improvements.

1.3 Strategic management information systems and Program support services—changed circumstances

Background

In our *1999–2000 Annual Report* (No. 7—page 62), we recommended that the:

- Department of Children's Services and the Child and Family Services Authorities examine the support services, including shared services, for opportunities to improve cost effectiveness.
- Department and Authorities enter into service agreements with the Alberta Corporate Service Centre (the Centre).

And, in our *2002–2003 Annual Report* (No. 5—page 59), we recommended that the Ministry of Children's Services improve the Authorities' strategic management information systems.

Our audit findings

Changed circumstances—recommendation not repeated

We are not repeating these recommendations due to changed circumstances. At the time of the audits, the Alberta Corporate Service Centre was providing financial services to Authorities through six Regional Service Centres (RSCs). The Centre dissolved the six regional centres in October 2003, and transferred their staff to the Authorities, Persons with Developmental Disabilities Boards, and the Ministry of Human Resources and Employment. In November 2004, the Centre was transferred to the new Ministry of Restructuring and Government Efficiency (RGE).

RGE continues to provide finance, payroll, information technology and other administrative services to the Department and the Authorities. Although RGE only signed one agreement for the Department and Authorities, the Department allocates these costs to the Authorities, which disclose the costs in their financial statements. RGE is working with all ministries to update service level agreements.

1.4 Availability of data for performance measures—implemented

Background

In our *2003–2004 Annual Report* (page 98), we repeated our *2001–2002 Annual Report* (page 59) recommendation that the Ministry consider the availability of data for performance measurement and reporting when deciding which measures to include in its business plan.

New process to ensure data available

The Department has implemented this recommendation by instituting a process to ensure that a measure is included in the Ministry business plan only when data is available to report results.

1.5 Other prior-year recommendations—not assessed

We will follow up on these recommendations in future audits.

Year and reference	Topic
2000—No. 9	Costing and results information
2003—No 6 and 2004—No. 7	Delegated First Nation Agency Accountability
2002—No.8	Contract policy
2004—Page 96	Risk assessment of internal audit services

Community Development

Summary: what we found in our audits

Systems

The Ministry has implemented our recommendation relating to grants provided by the Wild Rose Foundation to Applewood Park Community Association—see page 54. It has also improved grant systems for the International Development Program but still needs to implement these new processes—see page 55.

Performance reporting

Our auditor's reports on the financial statements of the Ministry, Department and seven provincial agencies are unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Ministry entities

The Ministry consists of the Department and seven provincial agencies.

Three core businesses

The Ministry's 2005–2008 business plan identifies three core businesses:

- support individuals and organizations through community development
- protect human rights, promote fairness and access, and support the protection, inclusion, and participation of all Albertans
- preserve, protect and present Alberta's history, culture, provincial parks and protected areas

Ministry received $26 million

The Ministry received $26 million from sources external to government in 2005–2006.

Ministry spent $294 million

In 2005–2006, the Ministry spent $294 million, primarily as follows:

	(millions of dollars)
Community development	121
History and culture	108
Provincial parks and protected areas	48
Human rights, fairness and access	6

Website

For more information on the Ministry, visit its website at www.cd.gov.ab.ca.

Scope: what we did in our audits

1. Systems

   We followed up on the Ministry's progress implementing our previous recommendations.

2. Performance reporting

   We audited the financial statements of the Ministry, Department, and the following seven provincial agencies for the year ended March 31, 2006:

   - Alberta Foundation for the Arts
   - Alberta Sport, Recreation, Parks and Wildlife Foundation
   - Human Rights, Citizenship and Multiculturalism Education Fund
   - The Alberta Historical Resources Foundation
   - The Government House Foundation
   - The Historic Resources Fund
   - The Wild Rose Foundation

   We completed specified auditing procedures on the performance measures in the Ministry's 2005–2006 annual report.

Our audit findings and recommendations

1. Systems

1.1 Wild Rose grants to Applewood—implemented

Background

In our *2004–2005 Annual Report* (No. 26—page 137), we recommended that The Wild Rose Foundation (Wild Rose) review the results of our audit of grants to the Applewood Park Community Association (Applewood) and take appropriate action.

Our audit findings

Wild Rose has taken appropriate action to recover grant funds by:

Repayment demanded

- demanding Applewood repay a $20,000 grant because it violated one of its three grant agreements with Wild Rose
- hiring a collection agency to collect the grant after Applewood refused to repay it

Applewood now ineligible

- removing Applewood from the grant eligibility list

1.2 International Development Program—satisfactory progress

Background

In our *2004–2005 Annual Report* (page 142), we recommended that Wild Rose improve its grant systems for the International Development Program (IDP) by:

- obtaining third-party evidence that matching funds exist before approving grants,
- enhancing the review of accountability reports, and
- establishing a way to obtain assurance that grant funds are used as intended.

Our audit findings

Satisfactory progress

Wild Rose made satisfactory progress implementing our recommendation by requiring IDP applicants to:

- prove they have funds to match the grant
- meet higher eligibility criteria
- swear application and accountability declarations before a commissioner for oaths
- include considerably more detail in accountability reports
- provide English translations of foreign-language documents

Also, Wild Rose is reviewing several alternatives suggested by international organizations for inspection of completed projects.

What remains

To finish implementing our recommendation, Wild Rose must show it has:

- applied the revised requirements to new applications for IDP grants
- established an inspection protocol for international projects

1.3 Management of parks and protected areas—not assessed

Background

In our *2002–2003 Annual Report* (page 81), we recommended that the Ministry improve its system for selecting private operators to run provincially-owned parks and for monitoring contract performance.

The Ministry expects to implement the recommendation by December 31, 2006.

2. Performance reporting

2.1 Excluded operations—implemented

Background

Operations of provincially owned facilities excluded

In our *2001–2002 Annual Report* (No. 11—page 68), we recommended that the Ministry record in its financial statements all revenues, expenses, and surpluses generated through the operation of provincially owned facilities. Historically, the Ministry did not report in its financial statements parking and other revenues, expenses, and surpluses related to the operation of the Northern Alberta Jubi lee Auditorium (NAJA) and the Southern Alberta Jubilee Auditorium (SAJA)—even though some of the operating activities of these agencies are on behalf of the Ministry.

Our audit findings

As of April 1, 2005 operations recorded

The Ministry has implemented this recommendation. Starting April 1, 2005 the Ministry has recorded the revenues, expenses, and surpluses from the operations of NAJA and SAJA on a prospective basis.

2.2 Performance measures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Economic Development

Summary: what we found in our audits

Systems

The Ministry must ensure that the contracts for staffing its international offices are current and complete—see page 58.

Performance Reporting

Our auditor's report on the Ministry financial statements is unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Three core businesses

The Ministry's 2005–2008 business plan describes three core businesses:

- strategic economic leadership and business intelligence
- industry and regional development, trade promotion and investment attraction
- tourism marketing and development

In addition to the Department, the Ministry includes two advisory bodies to coordinate private sector participation in its core businesses: the Alberta Economic Development Authority and the Strategic Tourism Marketing Council (including the Travel Alberta Secretariat). The Ministry also operates the Alberta Film Commission Office.

Ministry spent $79 million

In 2005–2006, the Ministry spent $79 million. The following programs are its largest costs:

	(millions of dollars)
Tourism marketing and development	42
Industry and regional development, trade and investment	26

For more detail on the Ministry, visit its website at www.alberta-canada.com.

Scope: what we did in our audits

1. We followed up recommendations from our *2002–2003 Annual Report* that the Ministry improve its *Managing for Results* systems.

2. We audited the financial statements of the Ministry for year ended March 31, 2006.

3. We completed specified auditing procedures on the Ministry's performance measures.

Our audit findings and recommendations

1. Performance reporting
Agreements for locally engaged staff

Recommendation

We recommend that the Ministry of Economic Development maintain current and complete agreements for staffing arrangements at its international offices.

Background

International Offices staffed by local people

The Ministry operates six international offices with locally engaged staff. The federal government—Foreign Affairs, Canada—pays the salary of locally engaged staff at these international offices, and then bills the Ministry for these costs. The local staff are employees of the federal government, which bills the Ministry monthly, and at March 31, gives it a complete list of annual expenses. For the year ended March 31, 2006, the Ministry spent approximately $1,200,000 on locally engaged staff salaries.

The Ministry records in its financial statements a liability in the amount of $938,000 for retirement and severance.

Criteria: the standards we used for our audit

Employee agreements with the Federal Government for locally engaged staff should be current and complete.

Our audit findings

Offices lack current agreements

The Ministry enters into agreements with the federal government to staff its international offices. However, it does not have current agreements for all its international offices. For example, it does not have current agreements to support staffing of locally engaged employees at its Seoul, Korea office. The most recent agreement we saw for the office manager at this Office is dated April 3, 1992. The agreement for the administrative assistant is dated October 23, 1996. These agreements were between the Ministry and the employees at the Seoul office. However, management asserts that these employees are now federal government employees providing services to the Ministry. An agreement covering employment arrangements would ensure a clear understanding of the Ministry's obligation for retirement and severance benefits at its Seoul office. Management currently estimates this obligation to be $755,000.

Implications and risks if recommendation not implemented

Without complete agreements for locally engaged staff, the Ministry may pay them the wrong amounts.

2. Systems

Managing for results—implemented

Background

Prior recommendations implemented

In our *2002–2003 Annual Report*, we made recommendations to help the Ministry improve its systems to "manage for results." Last year, we concluded that the Ministry needed more time to implement the following outstanding recommendations:

- Defining results in its business plan and assessing its contribution to results (*2003–2004 Annual Report*, page 118).
- Developing and reviewing performance information (*2003–2004 Annual Report*, page 120).

Our audit findings

The Ministry has implemented these recommendations by:

- Including measures in its 2006–2009 ministry business plan that demonstrate its contribution to results.
- Completing performance measurement frameworks for functional areas.
- Developing quarterly and biannual reports for review by its Executive Team.

Education

Summary: what we found in our audits

Systems

The Ministry should improve the school board budget process and should work with key stakeholder associations to set standards for financial monitoring information provided to school board trustees—see page 63.

Performance Reporting

Unqualified Auditor's Reports

Our auditor's reports on the Department and the Alberta School Foundation Fund financial statements are unqualified.

Qualification of opinion

Our auditor's report on the financial statements of the Ministry is qualified because the school boards are not included—see page 70.

No exceptions

We found no exceptions when we applied specified auditing procedures in 2005 on the Ministry's performance measures. Our work in 2006 on the Ministry performance measures is in progress.

Other entities that report to the Minister

- Northland School Division No. 61
  We issued an unqualified opinion on the financial statements of Northland School Division No. 61.

- School jurisdiction financial reporting and audit findings
  We have summarized internal control weaknesses and financial statement reporting issues from our review, under section 19(4) of the *Auditor General Act*, of the audited financial statements and audit findings for the 75 school boards and charter schools—see page 71.

Overview of the Ministry

The Ministry's 2005-2008 business plan describes three core businesses:

- support high quality learning opportunities in the education system.
- support learners to achieve excellent learning outcomes
- support the continuous improvement of the Ministry and education system

In 2005–2006, the Ministry spent approximately $4.8 billion. The largest expenses are:

	(millions of dollars)
Operating support to school jurisdictions	3,731
Teachers' pensions	478
Provincial initiatives and other programs	291
Accredited private school support	135

The Ministry's revenue was approximately $1.4 billion in 2005–2006. The primary source of revenue is education property taxes ($1.3 billion).

For more information on the Ministry, visit its website at http://www.education.gov.ab.ca/.

Scope: what we did in our audits

1. Systems

   We examined the budgeting process at 13 school boards. We also examined the Ministry's processes for monitoring the financial condition of school boards.

2. Performance reporting

   We audited the financial statements of the Ministry, Department, and the Alberta School Foundation Fund for the year ended March 31, 2006. We completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

   We performed the following work on entities that report to the Minister:

   - We audited the financial statements of the Northland School Division No. 61 for the year ended August 31, 2005.
   - We reviewed, under section 19(4) of the *Auditor General Act*, the audited financial statements and audit findings for the 75 school jurisdictions and charter schools for the year ended August 31, 2005.

Our audit findings and recommendations

1. Systems

1.1 School board budgeting

Background

Alberta Education's strategies to provide a quality education to all students include:

- Developing curriculum and setting standards
- Evaluating the effectiveness of the education system by measuring student performance, and
- Funding school boards

In 2005 school boards received $3.3 billion in funding

School boards are required to meet their educational goals with a level of funding largely determined by the Province that is based on the number of students they teach. The funding model takes into account funding that some boards obtain directly from taxpayers so that all boards are provided with the same amount of resources on a per student basis. Alberta Education (the Ministry) primarily uses per student funding (adjusted to compensate for unique factors such as location), a limit on the percentage of administration costs, and classroom size standards to try to achieve an equitable and economic allocation of resources for all students. In 2005, the Ministry paid $3.3 billion in grants to Alberta school boards.

The Minister has authority, under the School Act, to prescribe reporting and accountability systems for school boards. The Minister can also inquire into the financial condition of school boards and make any order he considers appropriate.

The financial reporting and accountability system established by the Act and Minister requires school boards, each year, to submit to the Ministry:

- a three year education plan setting out the educational goals and strategies of the board—by May 31
- the board's next fiscal year budget—by May 31
- a revised budget summary—on October 15
- a results report and the board's fiscal year end audited financial statements and management letter—by November 30

School boards with accumulated operating deficits must eliminate them over a number of years

The Ministry has told the school boards that: "a budgeted annual operating deficit is acceptable if, and only if, sufficient accumulated operating surplus funds are available to cover the planned shortfall without impairing the long-term financial health of the school board". School boards that incur an accumulated operating deficit are required to work with the Ministry to eliminate that deficit usually over a number of years. There is an impact on the future operations of the affected boards— boards eliminate deficits by not spending a portion of the annual funding provided to them.

Audit scope and objectives

School boards need to do accurate budgeting to be able to achieve their education plan. Our audit objective was to assess if:

School boards:

- comply with the Ministry's requirements for preparing and reporting their annual budgets.
- have systems that enable them to prepare accurate budgets and forecasts and to monitor actual results so they stay within budget.

The Ministry:

- provides adequate guidance to school boards.
- has sufficient monitoring processes in place to achieve its objective of school boards operating within the resources allocated by the Ministry.

We examined budgeting processes at 13 school boards

We examined the budgeting processes at 13 school boards by providing the school boards' external auditors with procedures to complete for us. Our sample was representative of all boards in that it included different size boards, both urban and rural. However a higher percentage of boards included in our sample—15%, incurred an accumulated operating deficit in 2005 as opposed to 6% of all boards.

We also examined the Ministry's processes for monitoring the financial condition of school boards. As part of this, we assessed the Ministry's:

- guidance to school boards,
- processes to review school board budgets and financial statements, and
- processes to decide when to take action to prevent school boards from incurring an accumulated operating deficit.

Conclusion

Overall, we concluded that the Ministry needs to:

- assist boards to improve their budget process, and
- give guidance to school board trustees to help with their oversight process.

1.1.1 School board budget process

Recommendation No. 25

We recommend that Alberta Education improve the school board budget process by:

- **Providing school boards as early as possible with the information needed to prepare their budgets (e.g. estimates of operating grant increases and new grant funding, and comments on financial condition evident from their latest audited financial statements).**
- **Requiring school boards to use realistic assumptions for planned activities and their costs and to disclose key budget assumptions to their trustees and the Ministry.**
- **Establishing a date for each school board to give the Ministry a trustee-approved revised budget based on actual enrolment and prior year actual results.**
- **Re-assessing when and how the Ministry should take action to prevent a school board from incurring an accumulated operating deficit.**

Background

The government's fiscal year starts April 1 whereas the school boards' fiscal year starts September 1. This means that the provincial budget has already been passed before the school boards submit their budgets and educational plans to the Ministry.

The school boards' budget process starts in January each year, and school boards need information from the Ministry to develop their estimates of funding. For their fiscal year 2005, the Ministry gave the school boards the:

- September 1 operating grants information in April 2004 and
- three-year funding allocation amounts to implement the classroom size standards in July 2004.

School boards also make assumptions about student enrolment, teacher salary increases, required staff levels, and inflation in other costs when preparing their budgets. Both trustees and the Ministry need to know the assumptions made in budgets to be able to determine the reasonability of the budget.

The Ministry needs reasonably accurate school board budgets to assess the financial condition of boards and to determine whether the Ministry will need to provide additional funds to ensure boards will be able to operate with an accumulated operating surplus.

Criteria: the standards we used for our audit

- School board budgets should be accurate and based on forecasted student enrolment and all the costs the school boards expect to incur in running their schools.

- School board budgets should meet the Ministry's submission and deadline requirements.
- The Ministry should monitor the financial condition of school boards and take action when boards have incurred or will incur an accumulated operating deficit.

Our audit findings

Overall, criteria partly met

Overall we found that the criteria were partly met. All school boards submitted a budget and revised budget to the Ministry. The Ministry reviewed and provided comments to the boards about these documents. However, we found that school board budgets and revised budgets submitted to the Ministry are not always complete enough to allow the Ministry to be able to rely on these as reasonably accurate projections of financial condition.

School board budgets submitted to the Ministry are not always complete and accurate

Funding information needed earlier

- The original school board budgets submitted to the Ministry for the year beginning September 1, 2004 were not complete because the Ministry did not provide key funding information on the class size standards until after the budgets had been submitted. This affected both the revenue and expense projections of the boards. To plan efficiently, school boards need information about Ministry grants by February because contracts with teachers require staffing decisions in May. Each year, the Ministry's business plan shows a target estimate of the next year's funding to be provided to the boards. This information is available to boards when they begin preparing their budgets but can vary from the actual budget the Ministry will receive for school board funding. Over the last four years, the actual budget has varied from the target estimate by a range of 3% more to 3% less. The Ministry can not provide the actual budget information about operating grants and new program information until the provincial budget is passed. The Ministry could, however, provide the boards in February with an assessment of the reasonability of the target estimate provided in the previous year business plan.

Key budget assumptions should be disclosed to Trustees and the Ministry

- The original school board budgets also were not complete because boards don't always include all of the projected costs the boards expect to incur in running the schools. Two school boards in our sample did not budget for anticipated increases in teacher salaries when teacher salary negotiations were underway. One board did not budget for utility cost increases. The budget guidance document provided by the Ministry doesn't specify that all costs must be included. Nor does it require that assumptions for key cost estimates be disclosed to the Ministry and to the trustees so that the reasonability of the estimates can be assessed. For example, at one board, we found one person made all key budget assumptions and there was no independent review of the assumptions for reasonableness by the trustees.

Trustees should review and approve revised budgets to be submitted to the Ministry

- The actual enrolment numbers are not known until the end of September. Any changes in enrolment affect the amount of revenue boards receive. In addition, when the original budget is prepared, school boards are still forecasting what the actual financial results for the current year will be. For these reasons, the Ministry requires boards to submit a revised budget to the Ministry in October. When we examined the revised budgets we found that six boards forecasted the same annual results and accumulated operating surplus in the revised budget as in their original May budget. Four of these boards ended up with significantly different actual results than projected in their budget submissions. Many boards reported that they had insufficient time to complete the revised budget and that they didn't use these revised budgets to manage their operations but instead used internal budgets prepared at a later date. Only two of the boards had these revised budgets approved by the trustees.

Ministry can improve its monitoring

Earlier review of school board financial statements needed

- The Ministry requires school boards to submit their audited financial statements by November 30. The Ministry completed its detailed review of the 2004 statements in April 2005 and made comments on sufficiency of school board capital asset replacement and capital and operating reserves. If the Ministry completed this review sooner and provided its assessment comments before the end of February, then boards could make any necessary changes in their next year's budget.

Better guidance needed on the level of operating reserves

- Although the Ministry encourages school boards to maintain an accumulated operating surplus sufficient to cover at least five days of operating expenses, six of the boards in our sample did not meet this standard. The Ministry has not explained to the boards why the five-day target for accumulated operating surplus is appropriate or how to calculate an adequate level of operating surplus. An alternative approach could be to maintain an operating surplus equal to a percentage of total expenses in case some of the cost assumptions included in the budget prove to be too

low. The Ministry requires boards to provide a deficit-elimination plan if a board incurs an accumulated operating deficit. If a board plans for an accumulated operating deficit, the Ministry asks the board to identify strategies to avoid incurring the deficit. If a board has less than the five-day target for accumulated operating surplus, the Ministry contacts the secretary-treasurer to discuss the board's financial health. The Ministry does not evaluate whether it should take other action based on an assessment of the reliability of the board's budget systems.

Implications and risks if recommendation not implemented

School board budgets may be inaccurate and incomplete. As a result school boards and Alberta Education may not meet their goals.

1.1.2 Interim reporting—minimum standards and best practices

Recommendation No. 26

We recommend that Alberta Education work with key stakeholder associations to set minimum standards for the financial monitoring information provided to school board trustees.

We also recommend that Alberta Education work with the key stakeholder associations to provide information to trustees about:

- **the characteristics of a strong budgetary control system**
- **best practices for fulfilling financial monitoring responsibilities**

Background

Trustees expected to hold management accountable for meeting budgets

The Ministry expects school board trustees to hold management accountable for achieving goals set by the board's planning process, while staying within budget. This involves the trustees monitoring actual spending against the budget, using interim data to estimate results for the fiscal year, taking action to stay within budget, and evaluating any effects on attainment of goals.

The Alberta School Boards Association, the College of Alberta School Superintendents and the Association of School Business Officials of Alberta (key stakeholder associations) work with the Ministry to improve school board management.

As part of the audited financial statement package, each board chairman signs the School Jurisdiction's Management's Responsibility for Financial Reporting. One assertion is that: "The effectiveness of the control systems is supported by the selection and training of qualified personnel, an organizational structure that provides an appropriate division of responsibility and a strong budgetary system of control."

Criteria: the standards we used for our audit

School boards should prepare and evaluate interim statements of revenue and expenses and changes in net assets on an accrual basis. Under the accrual basis of accounting, revenue is reported when earned and expenses when incurred. Cash basis accounting reports revenue when received and expenses when paid. Converting from cash to accrual basis involves using estimates.

Interim reporting to trustees

School board interim reporting to trustees should include:

- quarterly reporting, at a minimum, of actual-to-date results versus budgeted expenses and revenues, and a forecast of the remaining annual operating and accumulated operating financial results to the end of the fiscal year. Trustees should be able to rely on forecasts to assess if the board has resources to achieve all goals and if corrective action needs to be taken. Such actions can include adjustments to actual spending in the current year or to the next year's budget. Trustees need interim actual results reporting to assess the reasonableness of forecasts.
- explanation by management to trustees of variances of actual results and forecasted results compared to the budget.

The Ministry should provide adequate guidance to the school boards about characteristics of strong budgetary control.

Our audit findings

Interim reporting

Only one school board met our criteria

- Only one school board met our criteria. The board gives trustees regular written reports with actual-to-date operating results compared to the budget, forecasted results and net asset position to the end of the year, and explanations of variances.
- At one school board, trustees received only financial information about individual schools but not the overall combined school board operating results during the year.
- For the remaining 11 boards, we found variation in the nature and timing of interim information provided to trustees. Sometimes, information was written, other times, verbal. At some boards, trustees received information only on operating results, not on transactions affecting the accumulated operating surplus or deficit. Trustees received interim information such as:
  - Year-to-date actual results compared to original or revised budget, percentage of annual budget spent, and funds remaining. This sometimes included calculation of variances, but no forecast of results to the end of the year.
  - Forecasted operating results and net asset position to the end of the year, but no information on actual-to-date results.
  - Some boards received interim reports prepared on a cash basis rather than on an accrual basis.

Guidance to boards

Ministry needs to provide trustees with guidance

- This criterion was not met. Although the Ministry requires each Board Chair to assert that the board has a strong system of budgetary control, the Ministry has not provided any guidance to trustees indicating best practices for fulfilling financial monitoring responsibilities and the characteristics of a strong budgetary control system.

Implications and risks if recommendation not implemented

Without adequate interim reporting, boards may make decisions which will not result in economic, efficient and effective delivery of education.

1.2 Purchase of textbooks—not assessed

Last year, we recommended that the Department of Education implement a system to periodically evaluate the savings generated by the Learning Resources Centre and identify opportunities for additional savings.

Progress will be assessed next year

The department informed us that it expects to implement our recommendation by the end of 2006. Accordingly we will report the department's progress in implementing this recommendation in our *2006–2007 Annual Report of the Auditor General.*

1.3 Risk Management—not assessed

In 2002, we recommended that the Department of Learning establish a risk management process to improve the effectiveness of its control and monitoring activities. This was a continuation of a recommendation first made in 1999 to the Department of Education. Last year, we reported the department was making satisfactory progress in implementing the recommendations.

Progress will be assessed next year

We will follow up on the department's progress in implementing this recommendation in the fall and will report on progress in our *2006–2007 Annual Report of the Auditor General.*

2. Performance reporting

2.1 Financial statements

Qualified audit opinion

We qualified our opinion on the financial statements of the Ministry because they do not include the school boards.

School boards should be included

School boards are controlled entities of the Ministry and therefore should be consolidated in its financial statements. If it had included the school boards, on a modified equity basis, the Ministry's net assets would have increased by approximately $380 million and net operating results would have increased by $1 million for the year ended March 31, 2006.

The modified equity method of consolidation is allowed as a transition to line-by-line consolidation, which will be required for the year ended March 31, 2009.

Net assets would have increased by $2,519 million

Under line-by-line consolidation, the Ministry's capital assets would have been fully consolidated so net assets at March 31, 2006 would have increased by approximately $2,519 million instead of the $380 million noted in our qualified audit opinion.

Unqualified opinions

We issued unqualified opinions on the Department and the Alberta School Foundation Fund financial statements.

2.2 Performance measures

We had no exceptions on the specified auditing procedures report provided in 2006 on the Ministry's performance measures.

3. Other entities that report to the Minister

3.1 Review of school jurisdiction audited financial reporting and management letters

Background

We audit one of the school jurisdictions. For those jurisdictions we don't audit, we review the management letters sent to the jurisdictions by their auditors. Those audits were not designed to assess all key systems of control and accountability. However, the auditors tell management about weaknesses that come to their attention when auditing the financial statements. We also review the auditors' report on the financial statements.

There are 75 school jurisdictions comprising 62 school boards and 13 charter schools.

Our audit findings

Two qualified opinions

Auditors' Reports—of the 75 school jurisdictions, two (two in 2004) received a qualified auditors' report for the year ended August 31, 2005. The reports were qualified because the auditors were unable to verify the completeness of revenue from school generated funds.

All school jurisdiction auditors reported that the 2005 financial statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP). This is an improvement from 2004, when three auditors reported that the financial statements had been prepared on a disclosed, rather than GAAP, basis of accounting.

Financial statements—of the 75 school jurisdictions, 30 (32 in 2004) had annual operating deficits comprising 28 (29 in 2004) school boards and 2 (3 in 2004) charter schools. Annual operating deficits are acceptable to the Ministry as long as sufficient accumulated operating surplus funds are available to cover the shortfall.

Four accumulated operating deficits

Accumulated operating deficits are not acceptable to the Ministry. School jurisdictions with accumulated operating deficits are expected to work with the Ministry to eliminate the accumulated operating deficit in accordance with a Minister approved deficit elimination plan. Four (three in 2004) school jurisdictions had accumulated operating deficits at August 31, 2005. Deficit elimination plans have been approved, or are in the process of being approved, for each of these four school jurisdictions. Our school board budgeting audit includes additional discussion about accumulated operating deficits—see page 67.

Management letters—the following is a summary of the audit findings and recommendations reported in writing to school jurisdictions by their auditors for the year ended August 31, 2005:

a) **School-generated funds**—18 school jurisdictions (including 7 of the 22 reported in 2004) need to improve controls over the processes used to collect, record and report school-generated funds.

b) **Payroll and personnel management**—22 jurisdictions (including 6 of the 18 reported in 2004) need to improve controls over accuracy, completeness, proper recording, and access to payroll information.

c) **Capital assets**—9 school jurisdictions (7 in 2004) need to improve the recording and tracking of capital assets. None of the 7 school jurisdictions that were reported as requiring improvements to their systems in 2004 received repeat recommendations from their auditors in 2005.

d) **Purchases**—18 jurisdictions (including one of the 11 reported in 2004) need to improve controls over the purchase cycle such as implementation of the review and authorization processes over purchases and payments, retention of supporting documentation, and following the established policy of tendering for major purchases.

e) **Timeliness of financial recording**—13 jurisdictions (including 3 of the 9 reported in 2004) need to ensure bank reconciliations and related correcting entries, payroll reconciliations, accounting transactions, purchase orders and monthly financial statements are prepared or recorded on a regular and timely basis.

f) **Computer security**—4 jurisdictions (including 2 of the 9 reported in 2004) need to improve computer security processes such as the review of access privileges; the review and update of disaster recovery plans; and the development and review of comprehensive security policies and procedures.

g) **Segregation of duties**—7 school jurisdictions (including one of the 4 reported in 2004) need to have segregation of duties over authorization and recording of transactions and custody of and accounting for certain assets.

h) **Policies and procedures**—12 jurisdictions (including 4 of the 13 reported in 2004) need to update or implement formal procedures and policies.

i) **Accounting issues**—10 jurisdictions (including 3 of the 8 reported in 2004) need to resolve accounting issues such as foreign currency translation, recording of prepaid expenses, recording of unrestricted funds, and following accounting policies relating to capitalization and amortization of assets as disclosed in the financial statements.

j) **Review of financial information**—14 jurisdictions (including 3 of the 16 reported in 2004) need to improve their review of financial information such as bank reconciliations, journal entries, monthly financial statements and variances between budget and actual expenditures.

k) **Cash management**—9 school jurisdictions (including 2 of the 10 reported in 2004) need to improve cash management processes and controls.

l) **Board approval**—4 jurisdictions (2 in 2004) need to ensure that board approvals are obtained for matters such as board minutes; decisions such as authorization for change orders on significant capital projects and for significant expenditures; and revised budgets. Neither of the 2 school jurisdictions that were reported as requiring improvements to their systems in 2004 received repeat recommendations from their auditors in 2005.

m) **Goods and Services Tax**—6 jurisdictions (including one of the 3 reported in 2004) need to review their taxable sales regularly to ensure GST calculations are reviewed for accuracy.

n) **School deficits**—3 jurisdictions (7 in 2004) need to improve their budgetary processes. None of the 7 school jurisdictions that were reported as requiring improvements to their systems in 2004 received repeat recommendations from their auditors in 2005.

o) **Miscellaneous**—16 jurisdictions need to improve in various other areas such as filing systems, Board minutes, communications between staff, operational decision making, seeking solutions to staff and space shortages, and considering establishing an audit committee.

The Department contacts all jurisdictions and encourages them to deal with the issues raised in the management letters, particularly noting recommendations repeated from prior years.

Energy

Summary: what we found in our audits

Systems

The Department should:

- complete its risk assessment and evaluate the assurance obtained from the Petroleum Registry System and the Department's controls over well and production data—see page 76.
- communicate to the Alberta Energy and Utilities Board (EUB) how much assurance, if any, the Department needs over the completeness and accuracy of well and production data—see page 76.

Performance reporting

Our auditor's reports on the financial statements of the Ministry and the Department are unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

The Department should review the extent of evidence required to support significant adjustment to its financial statements—see page 80.

Other entities that report to the Minister

Performance reporting

Financial Statements

- Our auditor's reports on the financial statements of the EUB and the Alberta Petroleum and Marketing Commission (the Commission) are unqualified.

Overview of the Ministry

Ministry entities

The Ministry consists of the Department of Energy, the EUB and the Commission.

The Ministry's 2005–2008 business plan identifies four core businesses:

Four core businesses

- secure Albertans' share and benefits from energy and mineral resource development
- ensure Alberta's energy and mineral resources remain accessible, competitive and attractive to investment and development
- ensure Alberta consumers have a choice of reliable and competitively priced energy
- regulate the development and delivery of Alberta's energy resources and utilities services in a manner that is fair, responsible and in the public interest

Ministry received $14.8 billion

The Ministry collected $14.8 billion in revenue in 2005–2006, from the following sources:

	(millions of dollars)
Non-renewable resource revenue	14,347
Freehold mineral rights tax	334
Industry levies and licenses	74
Other revenue	42

Ministry spent $202 million

The Ministry spent $202 million in 2005–2006.

For more details on the Ministry, visit its website at www.energy.gov.ab.ca.

Scope: what we did in our audits

1. Systems

   We followed up our previous recommendations.

2. Performance reporting

   We audited the financial statements of the Ministry and the Department for the year ended March 31, 2006. We completed specified auditing procedures on the performance measures in the Ministry's annual report.

3. Other entities that report to the minister

   We audited the financial statements of the Commission for the year ended December 31, 2005. We also audited the EUB financial statements for the year ended March 31, 2006.

Our audit findings and recommendations

1. Systems

1.1 Assurance on well and production data—recommendation repeated

We are repeating the recommendation because the progress was slower than we expected.

Recommendation No. 27

We again recommend the Department of Energy:

- complete its risk assessment and evaluate the assurance obtained from the Petroleum Registry System and the Department's controls over well and production data;
- communicate to the Alberta Energy and Utilities Board how much assurance, if any, the Department needs over the completeness and accuracy of well and production data.

Background

We first reported this matter in our *2002–2003 Annual Report* (page 97). We revised our recommendation last year in our *2004–2005 Annual Report* (No. 28—page 165) to focus more on the Department's responsibilities.

The Department and the EUB both require complete and accurate oil and natural gas production volumes to achieve their respective mandates. Industry is required to file volumetric data each month with the Department and the EUB. The Department, EUB and industry use the Petroleum Registry System (the Registry) to share key volumetric, royalty and facility data. The Registry has a steering committee comprised of representatives from the Department, EUB and industry. The Registry includes computer edits to help validate volumetric data, including production data.

Criteria: the standards we used for our audit

The Department should have adequate assurance that well and production data reported by industry is complete and accurate.

Our audit findings

The Department has not yet developed a comprehensive, formal risk assessment for production and well data or evaluated the amount of assurance that the Registry edits and other validation controls are providing. The Department's progress was slow from August 2005 to the end of the year. However, since February 2006, the Department and the EUB have been meeting monthly and expect to have an implementation plan developed in the fall of 2006. The Department and the EUB formed a joint steering committee and a project team. The purpose of the steering committee is to improve communications, clarify roles and responsibilities, direct the work of the project team, and recommend operational changes. The project team is to prepare detailed analysis and risk assessments.

As part of our financial statement audit, we noted an event that highlights the importance of accurate well and production data—see page 79.

Implications and risks if recommendation not implemented

Royalties may be foregone

The Department cannot be certain of the completeness and accuracy of well and production data that it uses to calculate crown royalty revenues.

1.2 Administering the oil sands royalty regime

1.2.1 Incorporating risk in present value test—satisfactory progress

Background

In our *2003–2004 Annual Report* (No.10—page 125), we recommended that the Department incorporate risk into its present value test used to assess project applications.

Oil sands project operators must apply to the Minister for royalty approval under the Oil Sands Royalty Regulation regime. If the projects are approved, they will be subject to a royalty rate equal to 1% of gross revenue until the project's allowed costs are recovered. Once cumulative revenues exceed cumulative allowed costs, the royalties are the greater of 25% of net revenues or 1% of gross revenues.

Our audit findings

Satisfactory progress

The Department developed a new oil sands project approval process to incorporate risk into the assessment of project applications. This process applies a weighted scoring system against a standard set of criteria reflecting the relative importance of each criterion. The process provides a decision framework that is consistent and transparent and reflects legislation and policy goals. The Department plans to start using this new process before March 31, 2007. We will follow up on progress in 2006–2007.

1.3 Royalty adjustment programs—satisfactory progress

Background

In our *2002–2003 Annual Report* (page 95), we recommended that the Department of Energy assess whether the royalty reduction programs are achieving their intended objectives.

Programs reduce royalty rates and increase production

The Department provides 11 oil and gas royalty adjustment programs. Three programs make royalty adjustments for certain strategic policy initiatives; for example, reduced sulphur emissions and energy conservation through reduced flaring. The Department has designed eight other royalty adjustment programs to increase production. Increased production generally results in additional revenue to the Crown. The eight programs adjust (reduce) Crown royalty rates to encourage industry to produce from wells where the normal royalty would cause the wells to be uneconomic. The Department initiated these programs since it is highly unlikely that industry would have achieved the full amount of incremental production without the royalty adjustments. For the year ended March 31, 2006, these programs adjusted Crown royalties down by $948 million (2005–$533 million).

Our audit findings

Three oil programs changed

The Department made satisfactory progress implementing our recommendation to assess whether the royalty adjustment programs are achieving their intended objectives. The Department reviewed three oil royalty adjustment programs in 2005–2006. It will end the horizontal re-entry well royalty program in five years and has modified the reactivated well and low productivity royalty adjustment programs.

Department defined objectives

The Department defined objectives for the three oil royalty adjustment programs and established performance measures to evaluate whether the programs are meeting their objectives. The Department's targets for its performance measures are "increases" in investment, production, royalty revenue, and industry revenue. The Department plans to review the effectiveness of these programs again within five years.

Deep gas program changed

The Department also completed its review of the deep gas royalty adjustment program. The Department plans to terminate the existing program and replace it with a new program focused on specific types of wells.

What remains

A practice of reviewing royalty adjustment programs every five years was established. We will monitor continued implementation of this practice next year.

2. Performance reporting

2.1 Financial statements

We issued unqualified auditor's reports on the financial statements of the Ministry and the Department.

2.2 Royalty revenue adjustments

Recommendation

We recommend that the Department of Energy review the extent of evidence required to support significant, non-routine adjustments to royalty revenue for financial reporting.

Background

Royalty payers can adjust all production data up to five years from when they produced the oil or natural gas in the Alberta Petroleum Registry. Four royalty payers requested the Department to keep the 2001 production year open to correct previously reported production data included in the Alberta Petroleum Registry relating to low productivity gas wells. Management was proactive in attempting to assess the potential impact, from all qualifying low productivity gas wells, on crown royalties. However, the level of analysis and support for Departmental planning purposes is not always sufficient to meet the criteria for recording transactions in financial statements.

Criteria: the standards we used for our audit

Non-routine adjustments should be supported by appropriate and sufficient evidence.

Our audit findings

Based on an enquiry and challenge by the audit team during our audit, the Department reversed an entry to reduce gas royalty revenue by $237 million. The Department initially recorded the reduction to revenue based on its estimate of revisions to production hours on all low productivity gas wells for the past five years. The estimated reduction may have been necessary for planning and forecasting purposes, but the Department needed to also consider whether it was appropriate for its financial statements.

Although four companies asked the Department to review the issue, the companies had not submitted revised production hours and the Department subsequently concluded it did not have evidence to reasonably estimate the potential adjustment to revenue at the time the financial statements were finalized. In June 2006, the Department was still trying to quantify the reduction to royalty revenue resulting from the errors in the production hours. The Department was also working with the EUB to correct the well status information and production hours.

Implications and risks if recommendation not implemented

Non-routine adjustments may result in significant misstatements to the financial statements.

2.3 Performance measures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

3.1 Systems

3.1.1 Assurance systems for volumetric accuracy—not assessed

In our *2004–2005 Annual Report* (No. 29—page 169), we recommended that the Alberta Energy and Utilities Board explore ways to strengthen its controls for verifying the accuracy and completeness of oil and natural gas volumetric data and for enforcing measurement standards.

When the EUB accepted our recommendation, management indicated implementation would not be complete until 2006–2007. We agreed to perform our follow-up audit then.

3.1.2 Liability Management for Suspension, Abandonment and Reclamation Activities—not assessed

Last year, we recommended that the Alberta Energy and Utilities Board improve its systems by monitoring the timeliness in which industry restores wells, facilities and pipelines to a safe and stable condition after permanent dismantling. We will follow up on implementation next year.

3.2 Performance reporting

Financial statements

We issued unqualified auditor's reports on the financial statements of the EUB and the Commission.

Environment

Summary: what we found in our audits

Systems

Drinking water (Environment's drinking water program)—see Volume 1, page 25.

Water well drilling—The Ministry needs to improve its system to regulate, monitor, and report water well drilling in the province—see page 84.

Contaminated sites information system—we have repeated our recommendation for an integrated information system to track contaminated sites in Alberta—see page 87.

Performance reporting

Our auditor's report on the Ministry's financial statements is unqualified. We found one exception when we completed specified auditing procedures on the Ministry's performance measures—For the stakeholder satisfaction survey, the Ministry did not conduct a survey in 2005–2006 as required by its business plan.

Overview of the Ministry

Ministry spent $143 million

In 2005–2006, the Ministry spent $143 million in its two core businesses:

	(millions of dollars)
Assuring Environmental Quality	97
Sharing Environmental Management and Stewardship	46

Ministry received $8 million

The Ministry received $7 million in 2005–2006 from sources external to the government:

	(millions of dollars)
Fees, Permits and Licenses	3
Other Revenue	5

For more detail on the Ministry, visit its website at www.gov.ab.ca/env.

Scope: what we did in our audits

1. Systems

   We examined the Ministry's:

   - Drinking Water Program
   - System for regulating water well drilling

   We followed up our previous recommendations.

2. Performance reporting

   We audited the financial statements of the for the year ended March 31, 2006. We completed specified auditing procedures on the Ministry's performance measures.

Our audit findings and recommendations

1. Systems

1.1 Water well drilling

Recommendation No. 28

We recommend that the Department of Environment improve its system to regulate water well drilling by:

- **Ensuring that drillers and drilling companies meet approval requirements;**
- **Implementing controls to ensure that water well drilling reports are:**
  - **received on time,**
  - **complete and accurate, and**
  - **accurately entered into the Groundwater Information System;**
- **Obtaining assurance that water well drilling activities in the field meet legislated standards.**

Water well drillers require an annual approval

Background

The Department regulates water well drilling following the mandate of the *Water Act*. Under the *Act*, all water well drilling activities require an approval. The Department issues approvals to certified water well drillers. Approvals are issued annually; drillers are required to reapply at the end of each one-year term. The Department reviews each application to ensure that information is accurate and that the drillers listed on the application are properly certified.

Environment collects drilling information in GIS

For each new water well, drillers must submit drilling reports within 60 days to the Department and to the owner of the well. To process and manage the information gathered through these Drilling Reports the Department uses the Groundwater Information System (GIS). The department's process calls for staff to check the accuracy and completeness of the drilling reports and to enter them into GIS. Water well drillers can submit reports either by mail or electronically via a secure internet connection. The information contained in GIS is available to the public through the Alberta Environment website. Regular GIS users include well drillers, real estate agents, lawyers and bankers, engineers and hydrogeologists, and members of the general public.

For administrative purposes, the Department's water well staff are housed in the Drinking Water Branch in Edmonton. Regulating water well drilling is not solely a drinking water business; water wells are drilled for more than drinking water purposes. To fulfill its regulatory obligations, the Department designed and implemented GIS for approving, monitoring, and reporting water well drilling activities in Alberta.

Criteria: the standards we used for our audit

Automated and manual systems used to support the ministry's water well drilling program should be well designed and operate efficiently and effectively.

Our audit findings

Water well drilling system not effective

The Department's system for regulating water well drilling does not operate as designed. The Department does not have an effective system to ensure that water well drilling is performed only by certified approval holders. Water well drillers do not submit the reports in proper form, the reports that are submitted are often incorrect, Environment does not review and correct obvious deficiencies in the submissions, and Departmental staff have not consistently entered water well drilling data into its information system for three years.

Not all applications list a registered driller

We examined a sample of 14 certified water well drillers and drilling companies who hold active approvals to drill water wells. We found three cases where approvals were issued to drilling businesses that did not have a registered water well driller on their approval application.

Drilling reports are not complete or timely

In a sample of 15 drilling reports received by the Groundwater Information Centre via mail we found that:

- Eight reports were not complete. The reports lacked key information such as the proposed well use, why the mandatory pump test was not done for 2 hours (as required by the Water Act Regulation), or why the pump test was not done at all. Required sections of some reports were not filled out.
- Six reports were not submitted within 60 days of the drilling activity.

GIS database not up-to-date and accurate

The Department has not consistently entered drilling reports into GIS since approximately 2003. The Department cites resource constraints as the cause of its current backlog. We sampled 15 drilling reports that had been entered in recent years. Of those 15, 7 had data entry errors such as incorrect borehole diameter or depth of well.

No monitoring to ensure standards met

The Department does not monitor in the field whether water well drillers meet regulated standards. It does not have a control to ensure that drillers meet the regulatory standards for water well drilling. This includes reporting all wells drilled, drilling wells to legislated standards, and proper reclamation if a well is not successfully completed.

Implications and risks if recommendation not implemented

Complete and accurate information on Alberta's groundwater is important for economically optimal and environmentally sustainable development of this vital resource. Effective monitoring would help ensure that industry meets the legislated standards for water well drilling.

1.2 Financial security for land disturbances—progress report

Background

Financial security is to cover the cost of reclamation, abandonment and remediation that an operator is unable to complete. It is returned to the operator when the site is reclaimed, or forfeited if the operator fails to meet his obligations.

In our *2004–2005 Annual Report* (page 180), we recommended that the Ministry of Environment implement promptly a system to obtain sufficient financial security to ensure parties complete the conservation and reclamation activity that the Ministry regulates. This was a repeat of our *2000–2001 Annual Report* (No. 8–page 90) recommendation. We had noted that there were some large land-disturbing industries (oil sands and coal mines) that were not providing security at full cost of reclamation and there was no evidence that a solution to inadequate security was imminent.

Implementation planned for 2007

Activities undertaken by the Ministry

A government-industry team led by the Ministries of Environment and Energy has prepared a proposal (Mine Liability Management Program) for cabinet review and approval which uses a risk based approach to calculate the security needed for:

- coal mines
- coal processing plants and related infrastructure at mine sites
- oil sands mines
- bitumen extraction processing facilities and upgrading plants, and related infrastructure at mine sites and
- plants and infrastructure that sit on land leased or owned for the purposes of mining or processing of coal or oil sands irrespective of ownership.

Implementation is planned for July 1, 2007.

1.3 Contaminated sites information system—recommendation repeated

Recommendation first made in 2002–2003

This recommendation has been repeated because three years later the Ministry is still without a plan for a contaminated sites information system although it has explored developing such a system.

Recommendation No. 29

We again recommend that the Ministry of Environment implement an integrated information system to track contaminated sites in Alberta.

Background

We previously made this recommendation in our *2002–2003 Annual Report* (No. 12—page 103).

A contaminated site is land that:

- contains contamination above the limits allowed by environmental guidelines
- poses an unacceptable risk to human health or ecosystems

Alberta follows the guidelines developed by the Canadian Council of Ministers of the Environment.

The Ministry as the regulator for contaminated sites needs to have information to:

- identify contaminated sites
- assess, designate and approve remedial action plans for contaminated sites

- ensure contaminated sites are being managed so that the potential adverse effects have been mitigated.

In our *2002–2003 Annual Report* we estimated that the Ministry had more than 5,000 contaminated sites files. We also reported that Ministry did not have an overall corporate system to track contaminated sites information.

The Ministry had indicated it planned to develop a system and would begin using the system in 2006–2007.

Our audit findings

No plan developed

The Ministry began work in 2005–2006 to standardize polices to manage contaminated sites, digitize records and explored whether an in-house system could be developed or another government system could be adapted to provide contaminated sites information. The Ministry has not yet developed a plan for an electronic contaminated site system.

Implications and risks if recommendation not implemented

Without a complete, accurate, integrated information system, the Ministry can only summarize or report the status of contaminated site files with considerable manual effort.

1.4 Managing for Results

Background

On page 135 of our *2003–2004 Annual Report*, we reported on our audit of the Ministry's Managing for Results systems (business planning, performance information and human resource management). We recommended that the Ministry:

- further improve its business plan by:
  - clarifying its contributions to achieving the government business plan goals.
  - enhancing the description of the significant environmental factors and risks, and their relationship to the strategic priorities in the plan.
  - showing the corporate services areas as supporting all of the Ministry's core businesses.
- improve the process for developing new performance measures and ensure the measures in its business plan assess the results each goal aims to achieve (No. 13—page 138).
- clarify the goals, performance measures and targets in its human resource plan, and improve the quality of employee performance assessments and the method of feedback.

In 2005, we reported that the Ministry had made satisfactory progress implementing the business plan and performance measure recommendations. We reported that the Ministry had implemented the human resource recommendations.

Our audit findings

Business plan—implemented

The Ministry of Environment implemented our recommendation to improve its business plan by enhancing the description of the significant environmental factors and risks, and their relationship to the plan's strategic priorities. In the "significant opportunities and challenges" section of its 2006–2009 business plan, the Ministry clearly and comprehensively describes the environmental trends and risks that could affect its performance. The Ministry then describes how it will meet these trends and risks—in both the "strategic priorities" section of the plan and the "strategies" section of each goal.

Performance measures—satisfactory progress

During the year, the Ministry continued to work on developing measures for Goal 1 (Alberta's environment is clean and safe) in the Ministry's 2006–2009 Business Plan. The Ministry has decided to review the goals in the upcoming 2007–2010 business plan.

What remains

To implement this recommendation, management needs to make sure that the measures in its business plan assess the results each goal aims to achieve.

We plan to follow up this recommendation based on goals and measures reported in the 2007–2008 ministry annual report.

Executive Council

Summary: what we found in our audits

Performance reporting

Our auditor's report on the Ministry's financial statements is unqualified. We found no exceptions when we applied specified auditing procedures to the Ministry's performance measures.

Overview of the Ministry

The Ministry consists of the Office of the Premier and Executive Council, the Public Affairs Bureau and the Corporate Internal Audit Services.

Four core businesses

The Ministry's 2005–2008 business plan identifies four core businesses:

- provide centralized, internal audit services to government
- help government ministries communicate with Albertans
- provide Albertans with two-way access to government
- publish and sell Alberta's laws and other materials

In 2005–2006, the Ministry spent $25.3 million and had revenue of $1.8 million.

For more information on the Ministry, see www.gov.ab.ca and www.pab.gov.ab.ca.

Scope: what we did in our audits

1. Systems

   We continued to monitor the government's progress improving the governance and accountability of Academic Health Centres.

2. Performance reporting

   We audited the financial statements of the Ministry for the year ended March 31, 2006. We applied specified auditing procedures to the performance measures in the Ministry's 2005–2006 annual report.

Our audit findings and recommendations

1. Systems

Academic Medicine—governance and accountability—progress report

Academic Medicine is a partnership of several entities

Academic Medicine is a partnership of the Regional Health Authorities (including the Alberta Cancer Board), academic medical faculties (including residents), salaried and non-salaried academic physicians, health scientists and support staff. There are two academic health centres in the province.

Funding of $655 million in 2004-2005

Academic Medicine is supported by government funding provided by the departments of Health and Wellness, Advanced Education and Innovation and Science (the Departments). Total funding of Academic Medicine, specifically the two academic health centres in the province, was $655 million for the 2004–2005 year.

Two recommendations on improving accountability and governance

In our *1998 1999 Annual Report* (No. 18—page 89 and No. 19—page 91) we recommended improving the accountability and governance of Academic Medicine. Recommendation No. 18 covered the full scope and magnitude of health activities. Recommendation No. 19 dealt with the need to establish clear roles, mandates, and accountabilities for the entities responsible for Academic Medicine. It also recommended developing an appropriate organization and governance structure.

Management actions

Actions taken

The Departments formed a cross-ministry committee for Academic Medicine that has taken the following actions to implement our recommendations:

- completed a draft work plan.
- defined the scope of academic medicine.
- completed a financial report of the 2004–2005 revenues.
- worked to clarify the roles and responsibilities of the government departments for academic medicine.

Future steps

Future steps include:

- developing a strategic plan for Academic Medicine.
- presenting a recommended governance structure and implementation plan to the Deputy Ministers of the Departments by December 2006.
- completing the 2005–2006 financial report by October 2006.

We will follow-up on the implementation of our recommendations in 2007.

Finance

Summary: what we found in our audits

Systems

The Department should:

- assess the costs and risks of Supplementary Retirement Plans
- ensure the total compensation disclosed for each senior executive includes all benefits earned in the year—see page 97.

Performance reporting

Our auditor's reports on the Ministry and Department of Finance financial statements are unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

Three follow-up recommendations to ATB

- Systems—Alberta Treasury Branches (ATB)
  ATB should ensure lending practices comply with corporate lending policies (see page 100), branches comply with corporate policies and procedures (see page 100), and investment services subsidiaries comply with regulatory requirements—see page 101.

- Systems—Alberta Securities Commission
  We are satisfied that the Commission has responded effectively to our recommendations in 2005 to improve its enforcement system—see page 102.

Unqualified opinions for ATB and its subsidiaries' financial statements and compliance audits

- Performance reporting—Alberta Treasury Branches
  We issued unqualified auditor's opinions for all of the financial statement audits we completed during the year for ATB and its subsidiaries listed in section 2.2 of Scope. A public accounting firm issued unqualified auditors' reports for regulatory compliance audits of these subsidiaries.

Unqualified opinions for other entities

- Performance reporting—other entities
  We unqualified auditor's opinions for all of the financial statement audits we completed during the year for the entities listed in section 2.4 of Scope.

Alberta Heritage Savings Trust Fund

- Performance reporting—Alberta Heritage Savings Trust Fund
  We also provided interim review reports to the Endowment Fund Policy Committee and the Minister of Finance on the Alberta Heritage Savings Trust Fund's quarterly financial statements.

Overview of the Ministry

Three core businesses

The Ministry of Finance has three core businesses:

- Fiscal planning and financial management
- Investment, treasury and risk management
- Financial sector and pensions

Department and entities

The Ministry consists of the Department and the entities listed in section 2.4 of Scope, including Alberta Treasury Branches.

Ministry manages $61 billion of investments

The Ministry manages investments with a market value of approximately $61 billion as at March 31, 2006. These investments include the assets of the General Revenue Fund, Alberta Heritage Savings Trust Fund, other provincial endowment funds, government-sponsored public sector pension plans and other government-related clients.

Ministry received $12.1 billion

The Ministry collected over $12.1 billion in net revenues in 2005–2006 from the following sources:

	(millions of dollars)
Income taxes	$ 7,594
Other taxes	1,656
Net investment income	2,305
Net income from commercial enterprises	206
Other	339
	$ 12,100

Ministry spent $878 million

In 2005–2006, the Ministry expenses were $878 million. The largest expense was $476 million for interest and related expenses.

ATB

ATB, operating as ATB Financial, is a provincial agency accountable through its Board of Directors to the Minister of Finance. ATB provides a range of financial services including accepting deposits and making loans to Albertans and businesses. ATB has also established subsidiaries to distribute mutual funds and facilitate trading of securities on behalf of customers.

Websites for both Ministry and ATB

For more information on the Ministry and its programs, see its website at www.finance.gov.ab.ca. For more information on ATB, see its website at www.atb.com.

Scope: what we did in our audits

1. Performance reporting

We audited the financial statements of the Ministry and the Department for the year ended March 31, 2006. We also applied specified auditing procedures to the performance measures in the Ministry's 2005–2006 annual report.

2. Other entities that report to the Minister

2.1 Systems—Alberta Treasury Branches

We examined four areas: compliance with lending policies, internal controls at branches, enterprise risk management and subsidiaries' compliance with regulations.

2.2 Performance reporting—Alberta Treasury Branches

Financial statement audits at ATB

We audited the financial statements of ATB for the year ended March 31, 2006. We also completed review engagements for ATB's quarterly financial statements. In addition, we audited:

- ATB's Management Pension Plan for the year ended December 31, 2005.
- financial statements for the year ended March 31, 2006 for the three subsidiaries of ATB:
  - ATB Investment Services Inc.
  - ATB Investment Management Inc.
  - ATB Securities Inc.

Compliance audits at ATB

In addition, a public accounting firm performed compliance audits of ATB's three subsidiaries and reported directly to the applicable regulatory bodies. We reviewed the results of these audits:

- Mutual Fund Dealers Association of Canada's Financial Questionnaire and Report as at March 31, 2006
- Investment Dealers Association of Canada's Joint Regulatory Financial Questionnaire and Report as at March 31, 2006
- Compliance with applicable sections of National Instrument 81–102 as required by the Alberta Securities Commission for the year ended March 31, 2006

2.3 Systems—Alberta Securities Commission

We examined policies for hosting and working session expenses.

We followed up our 2005 recommendations to improve the Commission's enforcement system.

2.4 Performance reporting—other entities

Other entities consolidated in Ministry financial statements

We audited the following entities that are consolidated with the Ministry:

For the year ended March 31, 2006:

- Alberta Heritage Savings Trust Fund
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Scholarship Fund
- Alberta Heritage Science and Engineering Research Endowment Fund
- Alberta Risk Management Fund
- Alberta Securities Commission
- N.A. Properties (1994) Ltd.
- Provincial Judges and Masters in Chambers Reserve Fund
- Supplementary Retirement Plan Reserve Fund

For the year ended December 31, 2005:

- Alberta Capital Finance Authority
- Credit Union Deposit Guarantee Corporation
- Alberta Pensions Administration Corporation. We also completed review engagements for each of the Corporation's quarterly financial statements.
- Gainers Inc. (year ended September 30, 2005)

In addition, we examined the financial statements, management letters, and audit files for the year ended December 31, 2005 for Alberta Insurance Council, a Crown-controlled corporation that is consolidated with the Ministry. A public accounting firm audits this entity.

Entities not consolidated in Ministry financial statements

We also audited the financial statements of the following entities that are not consolidated with the Ministry:

For the year ended March 31, 2006:

- Consolidated Cash Investment Trust Fund
- Provincial Judges and Masters in Chambers (Registered) Pension Plan

For the year ended December 31, 2005:

- Local Authorities Pension Plan
- Management Employees Pension Plan
- Public Service Management (Closed Membership) Pension Plan
- Public Service Pension Plan
- Special Forces Pension Plan
- Supplementary Retirement Plan for Public Service Managers

2.5 Performance reporting—Alberta Heritage Savings Trust Fund

We completed reviews of the Alberta Heritage Savings Trust Fund's quarterly financial statements.

Our audit findings and recommendations

1. Systems

1.1 Prior-year recommendations—not assessed

Below is a listing of past recommendations.

Not assessed

Year and reference	Topic
2003–2004—No. 14	Private Sector Pension Plans—Compliance monitoring framework
2003–2004—No. 15	Private Sector Pension Plans—Compliance planning and reporting
2003–2004—Page 156	Private Sector Pension Plans—Compliance information (including No. 16)
2003–2004—No. 27	Reliance on Canada Revenue Agency

We will follow up these recommendations next year.

1.2 Supplementary Retirement Plans (SRPs)

Recommendation No. 30

We recommend that the Department of Finance assess the annual and cumulative costs and risks associated with Supplementary Retirement Plans. Further, we recommend that the Department review the Treasury Board Directives to ensure that the amount disclosed as the total compensation of each senior executive includes Supplementary Retirement Plan benefits earned in the year.

Background

Management employees of the Government of Alberta, whose income exceeds a prescribed limit and who are members of the Management Employees Pension Plan (MEPP), are eligible to participate in a government administered SRP. The government's SRP was established in 1999 and requires employees and employers to contribute towards the cost of the SRP. The Minister of Finance can, subject to Treasury Board Directive, approve the inclusion of public sector employers, other than government departments, in the government's SRP. The current Treasury Board Directive restricts membership in the government's SRP to employees who are members of MEPP.

The government SRP is an employee contributory plan, has approximately 1,200 members, and is fully funded. It has assets of approximately $36 million and an accrued benefit obligation of $26 million at December 31, 2005. There is also a SRP for provincial judges. This plan has almost 200 members, assets of $56 million and an accrued benefit obligation of $60 million at March 31, 2006.

In the last four years, some health authorities, the Alberta Cancer Board, some post-secondary institutions, and other provincial agencies have established SRPs for their senior executives. In total, we have identified the existence of 16 SRPs in addition to the government SRP. The current accrued benefit obligation of the 16 SRPs is approximately $33 million. The objectives of these SRPS are to provide enhanced retirement benefits to senior executives. None of these entities approached the Minister of Finance requesting inclusion in the government SRP. The accrued benefit liabilities of only seven of these SRPs are funded. Only one of the SRPs requires its employees to contribute towards the cost of the SRP. We understand a reason for not funding a plan is to avoid prepaying refundable federal taxes.

Costs and risks to the Province of multiple plans

1. There is an administrative cost for administering a SRP. Multiple plans result in multiple administrators.
2. SRP trustees may not have the skills required to manage the plan, particularly for funded plans with invested assets.
3. Multiple plans result in fragmentation of assets. The pooling of assets generally results in better rates of return.
4. The cash flow implications of unfunded plans may not be known.

Criteria: the standards we used for our audit

1. The impact of multiple SRPs within the public sector should have been assessed.
2. Each entity should have a business case for establishing an individual SRP for its senior executives. The business case should include the economic justification and how risks associated with the SRP will be managed.
3. The disclosure of annual and cumulative SRP benefits earned by senior executives should be clear. Total annual compensation for each executive should include all benefits earned.

Our audit findings

- The Department of Finance has not done an analysis of costs and risks of multiple SRPs to the Province. The Government of Alberta's exposure, as the ultimate funder of the obligations of provincial organizations, needs to be understood. Also, we were unable to obtain business cases at the entity level for creating individual SRPs.
- The Treasury Board Directive on salaries and benefits disclosure does not mandate that the annual cost of SRPs be disclosed as part of the total compensation of each individual. We have observed that showing retirement arrangements in subsidiary tables causes difficulty in easily identifying the total compensation of each senior executive.
- The Treasury Board Directive on salaries and benefits does not provide guidance on how to disclose the cumulative deferred benefits for each senior executive.
- The terms and conditions and benefits of each SRP vary among the organizations. Some plans provide cost of living adjustments, while others offer past services benefits.
- For two of the unfunded SRPs, the entity has obtained a letter of credit from a financial institution to guarantee payment of the liability. There is a cost to the entity for obtaining a letter of credit.
- The number of health authority SRPs increased from two in 2004 to eight in 2006. The accrued benefit obligation increased from $7,378,000 to $18,331,000 in the same period.

Implications and risks if recommendation not implemented

While the current overall liability of the additional SRPs is not large in relation to the Province's resources, the liability is growing quickly and funding will become an issue for the government. Future provincial grants will be the source of that funding.

The growth in the number of SRPs creates administrative inefficiencies. This approach differs from that used for regular pensions. For example, all employees of the health authorities participate in one plan, the Local Authorities Pension Plan.

Fragmented disclosure of the compensation earned by senior executives leads to misunderstanding and confusion.

2. Performance reporting

Unqualified opinion

We have no reservations of opinion on the March 31, 2006 financial statements of the Ministry or the Department of Finance.

No exceptions noted

We found no exceptions when we completed our specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

3.1 Systems—Alberta Treasury Branches

3.1.1 Lending policy compliance—satisfactory progress

Background

Compliance with credit policies could be improved

In 2004–2005, we repeated our recommendation we have made annually since 2003 (No. 15) that ATB ensure its lending officers comply with corporate lending policies.

Our audit findings

Improvements in processes have been made

In 2005–2006, ATB has taken several actions to implement our recommendation including major revisions to its loan policies and business rules, staff training focusing on common compliance issues, and a program of pre- and post-disbursement audits.

Improved compliance results will take time

What remains

Lender compliance with credit policies are reviewed on an ongoing basis by ATB's Internal Audit Division, whose 2005–2006 results show that although significant improvements have been made in underlying processes, improved compliance scores will take time. To fully implement this recommendation, ATB must continue to reduce breaches of key internal controls to meet its appropriate targets for acceptable performance.

3.1.2 Branch operations compliance—satisfactory progress

Background

Compliance with branch policies could be improved

On page 195 of our *2004–2005 Annual Report*, we repeated the recommendation we have made annually since 2000 (No. 49) that ATB ensure its branch processes comply with corporate policies and procedures.

Our audit findings

Improvements in processes have been made

In 2005–2006, ATB has taken several steps to address our recommendation, including new operating policies and guidance, staff training focusing on common compliance issues, and rotational branch compliance reviews.

Improved compliance results will take time

What remains

Compliance with branch policies and procedures is reviewed by ATB's Internal Audit Division, whose 2005-06 results indicate that although significant improvements have been made in underlying processes, further positive results will take time. To fully implement this recommendation, ATB must continue to reduce breaches of key internal controls to meet its appropriate targets for acceptable performance.

3.1.3 Enterprise risk management--satisfactory progress

Background

ERM helps identify and manage risk

Since 2002, we have recommended ATB implement an enterprise risk management (ERM) strategy to assist it in identifying and managing all significant risks

Our audit findings

Specific risks are identified—summary information may be useful to prioritize risks

What remains

Management continues to make satisfactory progress implementing this recommendation. Reporting of specific risks is made to various sub-committees of the Board. To fully implement this recommendation, management should provide appropriate summary information to the Board's Governance Committee to allow it to exercise oversight of the ERM process, guide management on prioritizing key risks on an enterprise-wide basis, review and recommend policies on key reputation and strategic risks for Board approval, and monitor implementation of ERM guidance provided by the Board to management.

3.1.4 Investor services subsidiaries' regulatory compliance—implemented

Background

ATB has three wholly-owned subsidiaries

ATB has three wholly-owned subsidiaries that provide investment services and products to ATB customers. On page 162 of our *2003-2004 Annual Report*, we recommended that ATB Investment Services, ATB Investment Management, and ATB Securities enhance their control processes to ensure they meet regulatory requirements.

Our audit findings

Recommendation implemented

Management of the subsidiaries has satisfactorily implemented our recommendation. The regulatory compliance and financial statement audits of ATB's three subsidiaries did not identify any significant compliance issues.

3.2 Performance reporting—Alberta Treasury Branches

Unqualified opinions for ATB and its subsidiaries' financial statements and compliance audits

ATB—we issued unqualified auditor's opinions for all of the financial statement audits we completed during the year for ATB and its subsidiaries listed in section 2.2 of Scope. A public accounting firm issued unqualified auditors' reports for the compliance audits for these subsidiaries.

3.3 Systems—Alberta Securities Commission

3.3.1 Enforcement system—satisfactory progress

Summary

Based on our first follow-up audit, we are satisfied that the Alberta Securities Commission has responded effectively to our 2005 recommendations—out of 10 recommendations, 5 have been implemented and 5 are rated as having satisfactory progress. In some cases, we will need to see designed changes operating in practice. Here are the highlights:

- decisions on case files are evidenced appropriately with proper supervisory review
- case files are being processed promptly
- management is updating enforcement guidelines and policies
- potential conflicts of interest are being managed while a new policy is developed
- there is an ethics committee and hotline
- the Government of Alberta has appointed a lead independent member of the Commission.

What remains

The Commission has a plan to complete the implementation of the five remaining recommendations. It is anticipated that all recommendations will be implemented by September 2007.

Background

In our October 2005 *Report on the Alberta Securities Commission's Enforcement System*, we made 10 recommendations to improve the Commission's systems for enforcement, conflicts of interest, and governance. Management accepted our recommendations and gave us an implementation plan.

Follow-up audit objective

Our objective for this audit was to assess the Commission's progress in implementing each of our 10 recommendations, using the same criteria we established for our 2005 audit.

Our audit findings

The Commission has fully implemented five of the 10 recommendations and made satisfactory progress on the other five. Next year, we will assess progress on the remaining recommendations. Our findings on the status of each recommendation, numbered 1 through 10 inclusive, now follow.

Improving the enforcement system

We reviewed 87 closed case files and six open case files from investigations conducted in 2005 and 2006. We noted considerable improvement in recording information on case files, completing supervisory reviews and taking prompt action.

1. Recording of information to support decisions on case files—implemented
   All files had sufficient information to allow us to follow the sequence of events and understand reasons for key decisions.

2. Supervisory review of case files—implemented
   All files showed evidence of appropriate supervisory approval and sign-off.

3. Timeliness of the enforcement processes—implemented
   Files were completed promptly. An ongoing monitoring process tracks status and timeliness of files, and creates exception reports that are followed up.

4. Review and clarification of policies and guidelines—satisfactory progress
   A comprehensive draft enforcement procedures manual covers key enforcement processes and will soon be finalized. To finish implementing this recommendation, management needs to finalize the manual and show compliance with its policies and procedures.

What remains

5. Measurement of enforcement program performance—satisfactory progress
   The Commission uses performance indicators based on the time estimated to complete a task. Reports are generated when actual time exceeds the estimate. The Commission is working with the Canadian Securities Administrators and other securities commissions to develop broader national performance indicators. Next year, we will examine progress on the national performance indicators and the need for the Commission to further develop its own performance indicators.

What remains

Improving systems and policies to manage conflicts of interest

We interviewed the Chair of the Commission, the Chair of the Human Resources Committee and the Executive Director about their roles in managing potential conflicts of interest by Members and employees who buy and sell securities. We also examined declarations by Members and employees about their securities trades, and considered the extent of monitoring and guidance under the current conflict-of-interest policies.

6. Monitoring compliance with conflict-of-interest policies—satisfactory progress

The Commission is using an interim system to manage potential conflicts of interest by Members and employees while it develops a new policy. The interim system is functioning as intended. We found ample evidence of monitoring and guidance by the appropriate level of authority. To finish implementing this recommendation, management needs to ensure that the monitoring system is clearly defined and managed—based on the new policy.

What remains

7. Strengthening conflict-of-interest policies—satisfactory progress

A Commission committee is examining conflict-of-interest policies of other securities regulators as well as of private and public organizations. This committee expects to make final recommendations to the Commission about a new conflict-of-interest policy by the end of 2006. To finish implementing this recommendation, management will need to implement its new conflict-of-interest policy and show that it is working effectively.

What remains

Improving the Commission's governance

We interviewed the Chair of the Commission, the lead independent member, the Chair of the Human Resources Committee and the Director of Corporate Resources. We also reviewed the Commission's revised employee orientation manual and assessed its progress in implementing recommendations made by an independent human resources consultant.

8. Role of Human Resources Committee—implemented

The Chair of the Human Resources Committee and the Director of Corporate Resources meet monthly. With oversight by the Human Resources Committee, the Director of Corporate Resources has reviewed and updated workplace policies, made recommendations about employee compensation and monitored exit interviews for possible trends. An ethics hotline, an ethics committee and a process to report human resources related staff concerns are in place. The ethics hotline was established on February 15, 2006 and has received no complaints to date. Other recommendations made by the independent human resources consultant are in various stages of implementation.

9. Designation of a lead independent member—implemented

A lead independent member was appointed on May 1, 2006. We interviewed him and reviewed minutes of Commission meetings. We concluded that he is completing his duties in an appropriate manner and in accordance with his appointment.

10. Assessment of enforcement system's internal controls—satisfactory progress

Key decisions on case files are reviewed, approved and signed off by the appropriate supervisory authority. Basic performance indicators are in place and broader indicators are under development. An internal reporting system tracks key activities, timelines and file status. The system is monitored monthly by the Director of Enforcement and quarterly statistical analyses are planned for the upcoming year. The Executive Director reports on enforcement activities monthly to Commission Members. An independent consultant reviewed the Commission's enforcement system, including the adequacy of internal controls. Based on findings similar to ours, the consultant made 35 detailed recommendations. To finish implementing this recommendation, management needs to further consider the consultant's recommendations, plan further periodic independent reviews and ensure that information provided to Commission Members is adequate to allow them to conclude that the enforcement system's internal controls are functioning as intended.

What remains

3.3.2 Hosting and working sessions policies—satisfactory progress

Background

On page 198 of our *2004–2005 Annual* Report, we recommended that the Alberta Securities Commission update policies and improve controls over hosting and working session expenses.

Our audit findings

What remains

The Commission completed a draft copy of its hosting and working sessions policy on March 15, 2006. Management indicates that the policy will be brought to the Commission board for approval in fiscal 2007.

3.4 Performance reporting—other entities

Unqualified opinions for other entities

We issued unqualified auditor's opinions for all of the financial statement audits we completed during the year for the entities listed in section 2.4 of Scope.

3.5 Performance reporting—Alberta Heritage Savings Trust Fund

As requested by the Ministry, we provided interim review reports on the Alberta Heritage Savings Trust Fund's quarterly financial statements to the Endowment Fund Policy Committee and the Minister of Finance. The reports say that we are not aware of any material changes that are needed for these financial statements to meet Canadian generally accepted accounting principles.

Gaming

Summary: what we found in our audits

Performance reporting

Our auditor's reports on the financial statements of the Ministry, Department, Alberta Gaming and Liquor Commission (AGLC) and Alberta Lottery Fund are unqualified. We found no exceptions in performing specified auditing procedures on the performance measures of the Ministry and AGLC.

Overview of the Ministry

Three core businesses

The Ministry's 2005–2008 business plan describes its three core businesses as ensuring:

- Alberta's liquor industry operates with integrity, accountability and in a socially responsible manner
- Alberta's gaming industry operates with integrity, accountability and in a socially responsible manner
- the Alberta Lottery Fund benefits Alberta communities

Ministry entities

The Ministry consists of the Department, AGLC, and the Alberta Lottery Fund.

$1.99 billion revenue and $1.47 billion spent

In 2005–2006, the Ministry had total revenues of $1.99 billion and expenses of $1.47 billion. The majority of revenues ($1.98 billion) came from the net gaming and liquor income of AGLC.

	(millions of dollars)
Expenses	
Lottery funded programs	$ 234
Gaming research	1
Ministry support services	2
	237
Lottery Fund payments to other ministries	1,234
	$ 1,471

For more detail on the Ministry, visit its website at www.gaming.gov.ab.ca.

Scope: what we did in our audits

1. We followed up our previous recommendation on contract management at AGLC.

2. We audited the financial statements of the Ministry, Department, AGLC, and the Alberta Lottery Fund for the year ended March 31, 2006. We also audited:
   - the financial statements of the Alberta Gaming Research Institute for the year ended March 31, 2006
   - AGLC–Schedules of Sales Volumes of Liquor Containers

3. We completed specified auditing procedures on the Ministry's and AGLC's performance measures.

Our audit findings and recommendations

1. Systems

1.1 Contract management—satisfactory progress

Background

On pages 131–133 of our *2002–2003 Annual Report*, we recommended that AGLC strengthen its process to award and manage contracts by:

- establishing more comprehensive contracting policies.
- improving monitoring of contractors' compliance with contractual terms and conditions.
- establishing contracts before services are provided.
- requiring consultants to formally confirm they do not have an interest in any organization that conflicts with their obligations to AGLC.

Our audit findings

Improved contract practices

In the past three years, AGLC has significantly improved its contracting practices. It developed, approved and implemented revised contracting policies, including standard contract agreement templates, contract summary sheets and contract sign-off documents. In 2006, we sampled 10 contracts to assess the improved contracting policies and their implementation. Our follow-up audit indicated that AGLC must still revise its policies to improve operating practices and make them consistent. It must also improve monitoring of contractor compliance and ensure contracts are signed before they start. We now give our specific findings on each of the four parts of the 2003 recommendation.

What remains

Guidance for business cases still deficient

Establishing more comprehensive contracting policies—AGLC approved and implemented revised contracting policies in August 2004. It updated the policies in May 2005. However, the revised policies do not deal with our previously recommended guidance on requirements for preparing a business case analysis when considering contracting services, including outsourcing and sole sourcing arrangements. The absence of this guidance may result in

inappropriate outsourcing or sole sourcing services—or both. For example, under a contract with a trustee, AGLC transferred charity commissions that accumulated to as much as $30 million per quarter. Pending distribution to charities, the funds were held in an interest-bearing trust account under the trustee's sole control. The business case for AGLC taking this avoidable risk was not apparent during our review. Neither did we see evidence that AGLC assessed the potential return in relation to risk. The government's consolidated cash investment trust fund pays more interest than chartered bank trust accounts do.

What remains

To fully implement this part of the recommendation, AGLC contracting policies must provide guidance on the documentation requirements, including those for preparing business case analyses, when outsourcing or sole sourcing contracts. AGLC must also consistently document the justification for outsourcing and sole sourcing contracts.

Inconsistent monitoring

Improving monitoring of contractors' compliance—our review of 10 contracts indicated that AGLC's contract monitoring is inconsistent. AGLC contracting policies state: "Originators must document assignment of roles and responsibilities to monitor contractors' compliance with terms and conditions of the contract." However, AGLC's process does not ensure the responsible party actually monitors the contract terms and conditions.

Better monitoring and written evaluations needed

For example, a contractor invoiced AGLC for expenses above the contract rates. The amount in question is not significant, although the principle is. Good practice requires all contracts to be monitored for compliance with terms and conditions. More importantly, we were unable to assess if AGLC received value for its money on this contract until we received a verbal evaluation from the Chief Executive Officer. Since the contract's deliverables are intangible, management has a greater burden to show that contract expectations have been met cost-effectively. Management's written evaluation of the contractor's performance could do this.

Other examples of lack of monitoring

Other examples of terms and conditions not being monitored:

- One contract exceeded the contract cost both before and after the contract was amended.
- AGLC did not ensure all the insurance documents were received for two contracts. After our review, AGLC received all the insurance documents.
- AGLC did not ensure a trustee was in good standing with the Law Society of Alberta. After our review, AGLC ensured the trustee was in good standing.

What remains

To implement this part of the recommendation, AGLC must ensure a process exists to regularly evaluate and document a contractor's actual compliance with the contract's terms and conditions, particularly when the contract deliverables are intangible.

Examples of contracts not signed before services start

Establishing contracts before services are provided—AGLC's contracting policies state: "contracts must be completed and executed by both parties prior to ordering and receiving the goods or commencement of the services." Five of the ten contracts we reviewed were not signed before services were provided. Instead, they were signed three weeks to six months after the contractors began providing services. In addition, AGLC has not signed a contract with the trustee for the city-wide pooling of charity casino table games proceeds.

What remains

To implement this part of the recommendation, AGLC must ensure that contracts are signed before services are provided—to ensure certainty of terms between the parties. Management asserted there were business reasons, in each case, for having services start before signing the contract.

Consultant conflict of interest—AGLC implemented this part of the recommendation.

Standard conflict-of-interest clauses in contracts

It includes standard conflict-of-interest clauses in its consulting contracts, requiring consultants to disclose in writing any possible conflict of interest. In the four consultant contracts we reviewed, management informed us that the consultants did not disclose any conflicts of interest.

Next year, we will follow up implementation of the three outstanding parts of the recommendation.

1.2 Prior-year recommendations on grants management—not assessed

Below is a list of last year's recommendations:

Year and reference	Topic
2005–page 203	Completeness of published information on grants
2005–page 203	Guidelines for Other Initiatives Program grants
2005–page 205	Timeliness of grant monitoring

Next year, we will follow up the implementation of the three recommendations when management believes that the recommendations will be implemented.

Government Services

Summary: what we found in our audits

Performance reporting

Our auditor's report on the Ministry financial statements for the year ended March 31, 2006 was unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Two core businesses

The Ministry's 2005–2008 business plan identifies two core businesses:

- supporting a fair and effective marketplace in Alberta that encompasses the delivery of licensing and registry services, as well as consumer education and protection services to support fair business practices
- leading service improvement initiatives on behalf of the Government of Alberta, to improve Albertans' access to services while ensuring their privacy is protected

In 2005–2006, the Ministry spent $85.5 million.

Revenues from fees and licences were approximately $385.5 million from external sources.

For more details on the Ministry, visit its website at www.gov.ab.ca/gs/.

Scope: what we did in our audits

1. Systems

   We followed up the Department's progress implementing our previous recommendation to have recovery facilities and equipment available to resume business operations if a service disruption occurs.

2. Performance reporting

   We audited the financial statements of the Ministry for the year ended March 31, 2006. We applied specified auditing procedures on the Ministry's performance measures in its 2005–2006 annual report.

Our audit findings and recommendations

1. Systems

1.1 Disaster recovery plan—implemented

Ministry now plan for service disruptions

Background

In our *2002 2003 Annual Report* (No. 7—page 68), we recommended that the Ministry had appropriate recovery facilities and equipment to resume business operations if a service disruption occurs, but needed to document and test its plan to recover registry systems, including land titles, motor vehicles and personal property. The Ministry fully implemented our recommendation by documenting and testing its disaster recovery plan.

1.2 Other prior-year recommendations—not assessed

We will follow up on these recommendations in future audits.

Year and reference	Topic
2005—No. 34	Registry Renewal Initiative
2005	Managing for Results

Health and Wellness

Summary: what we found in our audits

Systems

Food Safety—see Volume 1, page 63.
Regional Health Authority Global Funding—see Volume 1, page 133.

Performance reporting

- Systems
  The Ministry should explain and quantify annually, in its annual report to stakeholders, key factors affecting health care costs—see pages 116 and 118.

- Financial statements
  Our auditor's report on the financial statements of the Ministry is qualified because the Health Authorities are not included—see page 125.

  Our auditor's report on the financial statements of the Department is unqualified.

- Performance measures
  We completed specified auditing procedures on the Ministry's performance measures. However, we were unable to complete procedures for two of the measures.

Other entities that report to the Minister

- Systems
  - Capital Health's management needs to provide its Audit and Finance Committee with complete and accurate financial information—see page 126.
  - Calgary Health Region needs to monitor its human resource service provider's performance using the service-level standards and reporting timelines that the Authority and the service provider agreed to in May 2006—see page 128.

- Performance reporting
  - We issued an unqualified auditor's opinion on the financial statements of the Alberta Alcohol and Drug Abuse Commission.
  - We issued unqualified auditor's opinions on the financial statements of the six Authorities and two Provincial Boards we audit.
  - Unqualified auditor's reports were issued by the appointed auditors of the three Authorities we don't audit.

Overview of the Ministry

Ministry entities

The Ministry consists of the Department of Health and Wellness and the Alberta Alcohol and Drug Abuse Commission.

3 core businesses

The Ministry's 2005–2008 business plan identifies three core businesses:

- advocate and educate for healthy living
- provide quality health and wellness services
- lead and participate in continuous improvements in the health system

Ministry received $2.7 billion

The Ministry collected $922 million in premiums and fees in 2005–2006, and received $1.8 billion from the Government of Canada.

Ministry spent $9.2 billion

The Ministry spent $9.2 billion in 2005–2006, for the following services:

	(millions of dollars)
Health Authorities	6,220
Physician Services	1,755
Blue Cross Benefit Program	586
All other	639

For more detail on the Ministry, visit its website at www.health.gov.ab.ca.

Scope: what we did in our audits

1. Systems

   We followed up, or will follow up, on our previous recommendations, as this table indicates:

Year and reference of recommendation	Topic	Status	Section and page no. in this report
1999–2000, No. 21	Funding Health Authorities using a population-based model	Separate section of the Annual Report—see page 133	
2000–2001, No. 17	Systems for paying physicians	Recommendation repeated	2.2–Page 120
2001–2002, No. 24 and 2003–2004, No. 22	Information technology control environment	Recommendation repeated	2.4– Page 123
2002–2003, No. 22	Accountability for restricted funding	Satisfactory progress	2.5–Page 124
2002–2003, No. 23, pages 156 and 157	Province-wide Services	Not assessed—follow up in 2006–2007.	None
2003–2004, No. 21	Control over health care registration	Satisfactory progress	2.1–Page 120
2003–2004, No. 23	Accountability of Health Regions to Minister of Health and Wellness	Not assessed—follow up in 2006–2007.	None
2003–2004, page 193	Contracting for consulting services	Implemented.	2.3–Page 122

2. Performance reporting

We audited the financial statements of the Ministry and Department for the year ended March 31, 2006. We completed specified auditing procedures on the performance measures in the Ministry's 2005–2006 annual report.

3. Other entities that report to the Minister

We audited the financial statements for the year ended March 31, 2006, of the following other entities that report to the Minister:

- Alberta Alcohol and Drug Abuse Commission
- Provincial Boards
  - Alberta Cancer Board
  - Alberta Mental Health Board
- Regional Health Authorities
  - Calgary Health Region, and Carewest, its wholly-owned subsidiary
  - Capital Health, and Capital Care Group Inc., its wholly-owned subsidiary
  - Chinook Regional Health Authority
  - East Central Health
  - Northern Lights Health Region
  - Peace Country Health

We reviewed the auditor's reports and management letters of three Health Authorities that we don't audit:

- Aspen Regional Health Authority
- David Thompson Regional Health Authority
- Palliser Health Region

Our audit findings and recommendations

1. Systems findings—Accountability for health care costs

Summary of our audit

The purpose of our audit was to examine the extent of public information that the Ministry of Health and Wellness provides about government spending on health care. Our examination included a review of the Department's processes to collect and analyze health care costs for public reporting purposes.

Spending one of the main challenges

Each year, the Minister of Health and Wellness has identified spending as one of the main challenges facing the health care system. The Department's health care funding increased 46% between 2002 and 2005, from $6.1 billion to $8.9 billion.

Legislative assembly needs cost information

Good information about health care costs is important because when Members of the Legislative Assembly consider and approve the health care budget, they need to understand why health care spending is increasing. Members must ensure that health care priorities are balanced with the needs of other competing government programs and that all spending is balanced with the government's ability to generate revenue. Because resources are finite, the Ministry needs to inform Members and Albertans of its strategies to manage and control health care costs.

Key factors affecting cost not explained

Our examination focused on the Ministry's 2005 annual report because it is the main public accountability document for Members and Albertans. We concluded that the report did not provide sufficient information to allow Members and Albertans to understand the key factors affecting health care costs or the Ministry's strategies to manage and control those costs.

What needs to be done

To improve reporting to Members and Albertans, the Department needs to:

- explain and quantify the key factors affecting health care costs.
- identify strategies to manage and control those costs.
- measure and assess the results of the strategies.

Change will take time

This information should give Members and Albertans a more comprehensive picture of Alberta's health care costs. It will likely take the Ministry several years to obtain the information to provide this picture. To some extent, the Ministry's success depends on the ability of Health Authorities to give it the necessary cost information. We expect the extent and quality of cost information to improve over time, allowing the Ministry to gradually improve the quality of the cost information in its annual reports.

1.1 2005 Ministry annual report results analysis

Recommendation No. 31

We recommend that the Ministry of Health and Wellness explain and quantify annually—in its annual report—key factors affecting health care costs.

Background

Costs continue to rise

Health care costs continue to rise in Canada. The Department of Health and Wellness provided financial support to the Conference Board of Canada to research key factors affecting health care costs and identify best practices for dealing with these factors. The Conference Board of Canada is a non-profit organization that produces and publishes research in many areas, including health care.

Key factors affecting costs

The Board published a report on health care in 2004 that identified factors that drive and escalate health care costs. Key factors affecting health care costs were classified as either drivers or escalators. The difference between the two was the level of control governments have over the costs.

Cost drivers include the effects of population growth, aging, demand for services, chronic diseases and inflation. The report concluded that governments have only minimal control over cost drivers.

Cost escalators include pharmaceuticals, new technologies, supply and cost of health care workers, and home care. Governments have more control over cost escalators, the report concluded.

Criteria: the standards we used for our audit

The results analysis section of the Ministry annual report should have sufficient cost information to allow readers to understand the key factors affecting current and future health care costs.

Our audit findings

Criterion partly met

The criterion is partly met. The Ministry's 2005 annual report identifies several of the cost drivers and escalators found in the Conference Board's reports. The Minister's opening message, for example, notes the continually rising cost of health care, in particular, the costs of drugs and new technologies.

The *Challenges and Opportunities* section of the annual report refers to the following factors that increase health care costs:

- a growing and aging population
- urban expansion leading to higher incidence of obesity and chronic disease
- new drugs and technological advances
- shortages of health care workers
- quality improvement and patient safety
- chronic disease

Costs for only a few key factors

Although the annual report identifies many of the drivers and escalators, it associates costs with them in only a few cases.

What needs to be done

To implement the recommendation, the Department needs to show—in the annual report—the amounts spent on cost escalators and drivers, the extent to which they are increasing, and how much the Ministry expects them to increase in the future. That information will allow readers to better understand the reasons for increases in health care costs and what future costs might be.

Implications and risks if recommendation not implemented

Without explanations of the key factors affecting health costs, Members of the Legislative Assembly and the public may not understand why costs are increasing or be able to assess if steps to control and reduce costs are working.

1.2 Performance measures

Recommendation No. 32

We recommend that the Ministry of Health and Wellness link health costs to outputs for the Ministry as a whole—in its annual report.

Background

Minister responsible for reporting on performance

The Ministry is responsible for measuring and reporting on the performance of the health system.

Performance measures are individual or combined indicators for assessing progress toward goals, as well as for assessing the economy, efficiency, and effectiveness of government services.

27 performance measures reported

For 2005, the Ministry reported 27 performance measures for 3 core businesses and six goals identified in its 2004–2007 business plan.

Criteria: the standards we used for our audit

Criteria we used

The measures in the Ministry annual report should provide sufficient information for readers to assess performance of the Ministry as a whole. Measures should be a mix of:

1. service efforts, including the cost of resources to provide services
2. non-financial indicators
3. accomplishments, which are outputs (the quantity of services provided) and outcomes (the results of these efforts)

In addition, measures should relate efforts to accomplishments, such as cost per unit of output and cost-effectiveness.

Our audit findings

Criterion partly met

The Ministry has partly met the first criterion. The Ministry's annual report includes financial statements which disclose information about the cost of resources used to provide services. However, the Department can improve disclosure of costs in the financial statements and annual report. In addition to financial statement disclosures, the Department reported a table of costs by core business in its annual report. Also, the Department reported a useful measure of the cost of resources used to provide services in relation to the growth in provincial revenues.

Criterion partly met

The Ministry has partly met the second criterion. The Ministry annual report includes measures of outputs and outcomes of certain services but they are limited to a few services and are at a detailed level, for example, childhood immunization rates and the mortality rates for injury and suicide. A few isolated measures don't give a comprehensive picture of the health service results.

Criterion not met

The Ministry has not met the third criterion—it does not report any measures that relate costs to service outputs.

What needs to be done

To implement the recommendation, the Ministry must focus on a few key outputs and performance measures to help readers understand the performance of the Ministry as a whole. The main areas where better information on outputs is required are:

- Health Authority services,
- physician services, and
- drug costs.

One Health Authority providing more cost information

Output measures and costs are already provided by Capital Health—in a schedule to its annual financial statements. The schedule reports activities and related costs for the following types of care: inpatient, outpatient, community, home, and continuing, as well as promotion, prevention and protection services. This schedule could provide a useful starting point to develop measures across the health system. The Department could summarize similar information from the other Health Authorities to obtain much of the data it needs to report on outputs.

The Ministry's 2006–2009 business plan goals include collecting and publishing health system cost information. The Department is working with Health Authorities to identify what information should be collected and reported and to establish plans and timelines to do so.

Implications and risks if recommendation not implemented

Difficult to assess performance without good measures

Measures of cost effectiveness help explain the extent to which cost increases result from higher service levels (volumes) and price changes. Without this information, it is more difficult to get an understanding of the reasons for increased health expenditures. It is also more difficult to compare the performance of the Health Authorities and identify potential areas for cost savings.

2. Systems findings—progress on past recommendations

2.1 Control over health care registration—satisfactory progress

Background

In our *1998–1999 Annual Report*, and again in our *2003–2004 Annual Report*, we recommended that the Department improve control over the health care registration system. Last year, we reported that the Department made satisfactory progress implementing our recommendation by hiring a consultant to assist in:

- strengthening the application process
- establishing a toll-free hotline to report suspected abuses

We also reported that to fully implement our recommendation, the Department had to show that its controls restrict health care services to eligible people.

Our audit findings

Review program developed

The Department is developing a review program to test the effectiveness of its controls over health card applications and has instituted some data analysis procedures. These are positive steps, but the Department could also do more analysis of its health care registration data.

What remains

This year, we audited the fee-for-service payment system for health service providers and recommended (No. 33 on page 120) that the Department strengthen its ability to analyze, evaluate, assess, and follow up on information that the system produces. The same tools needed to strengthen the payment system would also allow the Department to improve its controls over the health care registration system. We will follow up on both recommendations next year.

2.2 Analysis of physician billing information—recommendation repeated

We repeated our recommendation because the Department is not making satisfactory progress implementing our recommendation.

Recommendation No. 33

We recommend that the Department of Health and Wellness strengthen its processes to analyze and investigate anomalies in physician billing information.

Background

30 million claims for more than $1.3 billion annually

Physicians, oral surgeons, optometrists, chiropractors and podiatrists (service providers) annually submit to the Department about 30 million electronic claims worth over $1.3 billion. Before payments are made, the electronic payment system screens the claims for potentially inaccurate or inappropriate billings. The Department follows up on any claims rejected by the electronic system and does some post-payment analysis, such as sending

letters to random service recipients asking if services were provided, comparing service provider claims against their peers and examining service providers with the highest annual claims.

Criteria: the standards we used for our audit

The Department should have processes to analyze physician billing information and identify anomalies.

Our audit findings

Data mining processes not done

The electronic payment system screens incoming claims from service providers for common mistakes and inaccuracies, but was not designed to identify all potentially inaccurate or inappropriate claims before paying them—nor can it be modified to do so. The Department follows up on complaints from the public and conducts some post-payment analysis. However, the Department does not currently have trained resources or specialized data mining equipment to search records for previously unknown relationships, trends, errors or anomalies that may indicate inappropriate payments.

Payment system can't catch all problems

Anomalies in data found that identify risks

Using data-mining techniques, we tested over 60 million records for 2.8 million people to see if claims had been paid that shouldn't have been. About 9,000 service providers received approximately $2.6 billion for a two-year period ending March 31, 2005. The following examples from our testing are not provided as evidence of inappropriate claims. Rather, these are examples of anomalies that can be found by using data mining techniques. Anomalies require further investigation to ensure inappropriate claims are not paid.

- **High volume and value of claims from same people**—the Department reviews service providers who submit unusually high numbers of claims. However, it does not analyze data about people who apparently see an unusually high number of service providers. We found one service recipient with over 1,100 claims in 2003–2004. Such unusual activity may be evidence of several people receiving services under one identity, or of one person seeking multiple treatments, such as narcotic drug prescriptions, for the same thing.

- **Types of services**—there are 3,284 health service codes to explain claims; just five of these codes cover 58% of all claims. The Department doesn't analyze health service codes for trends or transactions that may require follow-up. High volumes of low-value claims with common health service codes may be evidence of claims for services not performed or service providers using incorrect codes for administrative convenience.

- **Location of services provided**—the Department doesn't analyze the location of health services provided. We found 130 people who had incurred services in 20 or more facilities in 2003–2004. Unusual patterns in the location of services, such as similar treatments in different locations on the same day, may be evidence of several ineligible people receiving services under one identity, or of one person seeking multiple treatments, such as narcotic drug prescriptions, for the same thing.

- **Referrals between partners**—the Department doesn't analyze referrals between service providers who may also be business partners. We found one service provider who had made 13,354 referrals to a business partner in 2003–2004. High volumes of referrals between service provider partners may indicate an increased risk of claims for services not performed.

- **Workers Compensation Board (WCB) payments**—WCB pays service providers to treat work-related injuries. There is no system to ensure that service providers don't bill both WCB and the Department for the same service. We compared approximately $200 million in claims WCB paid for the year ended March 31, 2005 against claims the Department paid for the same injured workers. We found that the Department paid $718,785 for 9,822 claims which WCB also paid—apparently for the same services. Our testing was done pursuant to our authority under the *Auditor General Act*. In order for the Department to conduct similar testing, the impact of the governing statutes of both organizations, as well as privacy legislation, would have to be assessed.

Implications and risks if recommendation not implemented

The Department may not be able to detect trends or anomalies in data that may indicate errors or abuse by service providers or service recipients.

2.3 Contracting for consulting services—implemented

Background

In our *2003–2004 Annual Report*, we recommended that the Department follow its contract policy. In May 2005, the Department established a Contract Review Committee (the Committee) to review proposals for contracts exceeding $25,000—to assess if they complied with the contract policy.

Last year, we reported that to finish implementing the recommendation, the Department had to test the new policy and processes to ensure they worked properly and achieved intended results.

Our audit findings

Implemented

Management implemented our recommendation. We selected a sample of 11 contracts exceeding $25,000 that the Committee reviewed so that it could recommend to the Deputy whether the Department should proceed with the contract as drafted. We reviewed the contracts for compliance with the Department's contract policy and compared our assessment to the Committee's findings. We concluded that the Committee conducted its reviews in accordance with its terms of reference and used due diligence in reviewing the contracts.

2.4 Information technology control environment—recommendation repeated

We repeated our recommendation because the Department is not making satisfactory progress implementing our recommendation.

Recommendation No. 34

We again recommend that the Department of Health and Wellness carry out a comprehensive risk assessment of its IT environment, and develop and implement an IT disaster recovery plan.

Background

Original recommendation repeated

In our *2001–2002 Annual Report* (No. 24—page 135), and again in our *2003-2004 Annual Report* (No. 22—page 195), we recommended that the Department of Health and Wellness assess the effectiveness of the controls over information technology (IT), resolve deficiencies, and strengthen the overall control environment.

Satisfactory progress last year

We noted in our *2004–2005 Annual Report* that the Department was making satisfactory progress resolving these deficiencies. Specifically, the Department:

Plans to implement recommendation

- told us that it would complete a corporate-wide IT risk assessment, with a recognized risk-based strategic assessment and planning tool, called OCTAVE, by March 2006.

- had prepared a disaster recovery plan (DRP)—although it still had to approve the DRP and put a process in place to regularly test and update it.

Criteria: the standards we used for our audit

The Department should:

- complete risk assessments of its information technology environment on a regular basis,
- develop strategies to mitigate identified risk,
- complete its disaster recovery plan, and
- test and update the disaster recovery plan on a regular basis.

Our audit findings

The Department has completed some of the steps that the OCTAVE planning tool requires.

New priorities replace plans

As a first step in the IT risk assessment the Department identified 134 critical systems. The Department now needs to identify the security requirements and threats for these critical systems and develop plans to deal with identified risks. The Department informed us that its priority for the 2006 fiscal year was to improve the availability of its clinical health information system that is used by the Regional Authorities. The Department focused its efforts on this one system. An additional six highly critical systems are scheduled to be examined in the next year. There is no timeline for the review of the remaining critical systems.

Schedule means indefinite delays

After year end, the Department contracted with a service provider to review the proposed DRP and advise it on a plan to complete the DRP. Based on that plan, it will be several years before a DRP is in place. Meanwhile, the Department is operating without a disaster recovery plan for most of its financial and operational systems.

Implications and risks if recommendation not implemented

Lack of protection

Without a comprehensive risk assessment, the Department cannot be confident that it has identified, and appropriately protected itself against, IT weaknesses that may impair its business activities.

Misallocated resources and lack of preparation

Without an updated and tested DRP in place, the Department may be unable to recover effectively—or not at all—after a disaster occurs.

2.5 Control of, and accountability for, restricted funding—satisfactory progress

We previously recommended (*2002 2003 Annual Report*—No. 22, page 152) that the Department improve its control processes to ensure funding conditions were met and to decide if recipients had to repay unspent funds.

Department issued about $1 billion in grants

In the 2005–2006 fiscal year, the Department issued approximately $1 billion of conditional grants to Health Authorities and Provincial Boards and other not-for-profit organizations. For each conditional grant, the Department has a grant agreement that specifies funding conditions and reporting requirements.

Last year, we reported that the Department made satisfactory progress. We also said that to finish implementing the recommendation, the Department still had to show that it has processes to monitor compliance with grant conditions.

Our audit findings

Compliance monitored

The Department is making satisfactory progress. It asked program staff to monitor compliance with grant conditions and 23 of the 26 grants we reviewed were monitored promptly. However, monitoring was not done promptly in 3 cases:

Monitoring not always prompt

- no monitoring of the Regional Shared Information Program grants for 2003–2004 and 2004–2005 took place until the spring of 2006.
- five months lapsed between the reporting due date and the program staff's monitoring for one grant.
- program staff deferred the reporting requirement for 2004–2005 toxicology/water testing funding due to staff shortages at the recipient organization.

The Department's control process did not include checking to see that program areas had monitored the grants promptly. The Department plans to ensure that this is done this year.

What remains

To finish implementing the recommendation, the Department must show that it has a sustainable process to ensure that program areas monitor conditional grants promptly.

Implications and risks if recommendation not implemented

The Department may not detect that grant conditions are not met and may not recover funds that it should recover.

3. Performance reporting

3.1 Financial statements

3.1.1 Ministry and Department financial statements

Qualified audit opinion

We qualified our opinion on the financial statements of the Ministry because they do not include the Health Authorities.

Health Authorities should be included

Health Authorities are controlled entities of the Ministry and therefore should be consolidated in its financial statements. If it had included the Health Authorities, on a modified equity basis, the Ministry's net assets would have increased by approximately $356 million and net operating results would have increased by approximately $66 million for the year ended March 31, 2006.

The modified equity method of consolidation is allowed as a transition to line-by-line consolidation, which is required for the year ended March 31, 2009.

Net assets would have increased by approximately $3.45 billion

Under line-by-line consolidation, the Ministry's capital assets would be fully consolidated so net assets at March 31, 2006 would have been increased by approximately $3.45 billion instead of the $356 million noted in our qualified audit opinion.

Our auditor's report on the Department's financial statements is unqualified.

3.2 Performance measures

Unable to complete all procedures

We completed specified audit procedures on the Ministry's performance measures. However, we were unable to complete procedures for two measures: *Diabetes: Number of New Cases of Type 2 Diabetes* and *Number of Care Providers Accessing the Electronic Health Record*, due to the late receipt of the information.

4. Other entities that report to the Minister

4.1 Systems

4.1.1 Accurate financial information

Recommendation No. 35

We recommend that management of Capital Health provide its Audit and Finance Committee with complete and accurate financial information.

Background

The role of management includes providing the Audit and Finance Committee (Committee) with financial statements prepared in accordance with generally accepted accounting principles and any other financial information necessary to enable the Committee to carry out its oversight role.

The role of the Audit and Finance Committee includes:

- reviewing and recommending to the Board the annual audited financial statements
- reviewing and assessing the appropriateness of accounting policies, underlying assumptions and financial reporting
- reviewing and assessing significant financial and business risks and uncertainties
- reviewing significant capital and other transactions that could materially affect the Authority's financial structure

Criteria: the standards we used for our audit

Management should provide complete and accurate financial information to the Audit and Finance Committee to enable the Committee to fulfill its role.

Our audit findings

Annual financial statements

Liabilities overstated

Surplus understated

In 2004 and 2005, our financial statement audit revealed that management had overstated liabilities in the Authority's annual financial statements. At our request, management amended the financial statements. We recommended that the Authority develop more rigorous policies and procedures for recording liabilities.

Management corrected $22 million of the errors

In 2006, management again overstated liabilities in the Authority's annual financial statements which were presented to us to audit. The overstated liabilities caused the Authority's 2006 annual surplus to be materially understated by $25 million. Management corrected $22 million of the errors.

Surplus increased

As a result of the corrections, the 2006 annual surplus increased from $24 million to $46 million. The Authority had budgeted for a $17 million deficit.

Had the financial statements not been corrected, they would have been presented to the Audit and Finance Committee with a material misstatement.

Repayment of long-term debt

Committee not consulted

The business case to support repayment of long-term debt was not brought before the Audit and Finance Committee for review and further, the analysis supporting the repayment was flawed.

Debt repaid

The Authority borrowed $29 million to finance capital purchases, as follows:

- $10 million in 2000, maturing in 2018, at 5.75% for the parkade at the University of Alberta Hospital

- $19 million in 2005, maturing in 2029, at 4.9599% for the Capital Health Centre

Early repayment penalty

The 2006 audit revealed that the Authority repaid the remaining $27 million of debt out of its cash in 2006 thereby reducing its accumulated surplus by $27 million. Since the debentures were repaid before their maturity dates, the Authority paid an early repayment penalty of $880,000.

Flawed analysis supported repayment

The Authority repaid the debt because it had excess funds available. However, the business case analysis supporting the debt repayment was superficial and flawed in its logic because the analysis, in effect, compared the interest rate on the debt to the interest rate the Authority was earning on bank current accounts. If the analysis had used an appropriate interest rate, based on the Authority's actual cost of capital, it would not have supported incurring the prepayment penalty on repayment of the debt.

In repaying the debt and paying the penalty, the Authority reduced its accumulated surplus by $27 million.

Implications and risks if recommendation not implemented

Committee lacks necessary information

If the Authority's financial statements are inaccurate, the Audit and Finance Committee and the Board will not know the true results of operations. As a result, the Committee and Board may make incorrect conclusions and inappropriate decisions on allocating resources.

Authority lacks necessary information

The same risks apply to the Department of Health and Wellness, which relies on accurate financial reporting from the Authority when deciding how to allocate resources. Without accurate and credible accountability reporting from the Authority, the Department will not be able to rely on the information provided by the Authority.

If key financial information, such as the business case to repay debt, is not presented to the Committee beforehand, it cannot review and challenge significant business decisions.

4.1.2 Calgary Health Region: Monitoring service provider compliance and performance

Recommendation No. 36

We recommend that the Calgary Health Region monitor its contract service provider's performance using the service-level standards and reporting timelines that the Region and the contract service provider agreed to in May 2006.

Background

Human resources contracted out

In December 2003, the Authority outsourced the delivery of human resource services to a contract service provider. The outsourced services covered payroll, occupational health and safety, workforce planning and recruitment, compensation, and pensions and benefits. We audited the Authority's systems to monitor the service provider's performance because of the scale of the costs involved and the risks inherent in outsourcing. In 2003—2004, we reported that the agreement between the Authority and its service provider met many of our criteria for a good contract. However, the Authority had not been monitoring its own performance in some areas before outsourcing—due to weaknesses in its systems. Therefore, the Authority did not specify many performance criteria in the agreement. The outsourcing was initially implemented using the Authority's old systems, which were converted to *Peoplesoft*, in December 2004.

Lack of performance criteria in agreement

Criteria: the standards we used for our audit

The Authority should:

a. set service level service standards in an agreement signed by the contract service provider.
b. monitor the contract service provider's compliance with standards.

Our audit findings

Service-levels finalized

a. The first criterion is now met. Service-level standards represent the performance required in the key areas of service delivery. The Authority finalized the service-level standards on May 8, 2006.

Staff needed to monitor provider's services

The delay in finalizing the service-level standards was partly because the Authority underestimated the number of people needed to monitor its service provider's performance. Initially, it estimated that one person could manage the agreement. Now, the Authority is recruiting to fill five service manager positions to support the contract manager.

Costs were monitored

b. The second criterion was partly met. The Authority has a process for reviewing the costs of the outsourced services to ensure they are accurate and in accordance with the agreement. Cost increases relate primarily to the Authority's boundary realignments, increases in the number of employees, and changes in collective agreements with employees.

The Authority monitored 8 of 23 service-level standards

To assess if the Authority was properly monitoring its service provider's compliance with the service level standards in the agreement, we selected the three most recent service-level reports from the service provider. The Authority reviewed the supporting information reported by its service provider, except for one

occupational health and safety report. The service-level standards were met. However, because only 8 out of 23 finalized service-level standards were reported on, we concluded that progress was not satisfactory.

Service provider did not meet 12 of 86 control objectives

The Region also monitored its service provider's performance through an audit report on the service provider's financial internal controls related to the services provided. The independent auditor of the service provider examined its stated controls to evaluate their operational effectiveness and assess if the stated control objectives were met. The most recent report, completed January 2006, shows the service provider did not meet 12 of 86 control objectives. The Region is working with its service provider to correct deficiencies in the services that the audit report identified.

Implications and risks if recommendation not implemented

Without adequate and timely performance measurement, reporting and monitoring, the Region may not receive the level of services it requires from its service provider and thus may not meet its business objectives.

4.2 Systems—progress on past recommendations

4.2.1 Health Regions and Provincial Boards

Year and reference of recommendation	Topic	Status	Subsection
2000–2001, No. 20	Independent review of conflict-of-interest situations—Capital Health	Satisfactory progress	4.2.4
2000–2001, Page 135	Performance measures for surgical services	Not assessed—follow up in 2006-2007.	
2001–2002, No. 25	Managing cancer drug costs	Not assessed—follow up in 2006-2007.	
2003–2004, Page 202	Calgary Health Region—Business Cases	Implemented	4.2.3
2004–2005, Page 233	Security and handling of high-illicit-value prescription drugs in Health Region pharmacies	Implemented	4.2.2

4.2.2 Security and handling of high-illicit-value prescription drugs in Health Authority pharmacies—implemented

Background

Recommendations to each Health Authority on controlling drugs

We reported in our *2004–2005 Annual Report* that we had reviewed 13 pharmacies operated by 5 Health Authorities. Our goal was to assess if they had adequate processes to ensure the safe and lawful procurement, storage, handling, dispensing, and disposal of high-illicit-value prescription drugs. Our reviews resulted in recommendations to each Health Authority—to improve controls over procurement, inventories, and dispensing.

Our audit findings

All but 1 recommendation at 1 Health Authority implemented

Four of the five Health Authorities implemented all our recommendations. The fifth Health Authority implemented all our recommendations except one. Management accepted this recommendation; however implementation depends on recruiting additional staff. Although this one matter remains outstanding, we consider our recommendation to be implemented.

4.2.3 Calgary Health Region: Business cases—implemented

Background

In our *2003–2004 Annual Report* (page 202), we recommended that the Calgary Health Region analyze the benefits and risks of all viable alternatives in their business cases for new and complex projects.

In 2005–2006, we selected three recent initiatives of the Authority to assess if it had implemented the recommendation.

Our audit findings

Good business cases

The Authority prepared business cases that had thorough analysis of alternatives, including cost-benefit analysis and risk assessments. The business cases were submitted by management to the appropriate Board committees and were approved by these committees.

Proper selection process for service providers

We found no bias in the evaluation and selection of service providers. The Authority held competitions and evaluated provider submissions using criteria that were set before the start of the competitions. Experience of potential service providers was appropriately weighed and evaluations appeared to be consistent. Selection was based on the service provider's ability to meet the service objective needs of the Authority.

4.2.4 Conflict of interest—satisfactory progress

Background

In our *2000–2001 Annual Report*, we recommended that Capital Health enhance its conflict-of-interest processes by:

- extending private interest disclosure requirements to senior management who are in a position to influence decisions, and
- using an independent third-party review, as part of a formalized appeal mechanism, when employees operate private practices or clinics that contract with their employers.

Conflict-of-interest procedures should be extended

At that time, the Authority's corporate administrative procedures required its personnel who were involved in negotiating, awarding or managing contracts or purchases to prepare a conflict-of-interest declaration annually. We supported this disclosure and recommended it extend to senior management and others who have a fiduciary responsibility to the Authority and who may influence, directly or indirectly, the Authority's actions.

Our audit findings

Authority issued directives

The Authority has implemented the first part of the recommendation. A corporate directive requires executives and staff in a position to influence contracting or purchasing decisions to submit an annual non-conflict-of-interest declaration to the President through their immediate supervisor.

The Authority also implemented a corporate directive requiring an independent third-party review when its executives have an interest in a non-hospital surgical facility or other agency holding or seeking a contract with the Authority. However, the corporate directive:

Problems with corporate directive

- does not apply to all employees—the directive applies only to executives and does not distinguish executives from employees.
- does not specify what an independent third-party review entails, such as:
  - the steps to be taken if a conflict is identified
  - whether the Authority can still contract when a conflict exists
  - the role of the Authority's oversight body responsible for governance

Management told us that the Authority's policy is to avoid contracting if there is a conflict-of-interest, and consequently, there have not been any situations that would have required a third-party review. They agreed with our findings and told us that they would revise the directive to correct the deficiencies we identified.

What remains

In order to fully implement the recommendation, the Authority needs to revise the corporate directive to correct the remaining deficiencies.

4.3 Performance reporting—financial statements

4.3.1 Internal control problems at Authorities not audited by us

Background

The Auditor General is the auditor of six of nine Health Authorities and both Boards (Cancer and Mental Health). For the three Authorities we don't audit, we reviewed the management letters sent to the Authorities by their auditors. Audits are not designed to assess all key systems of control and accountability. However, auditors communicate any weaknesses to management that came to their attention when auditing the financial statements.

Our audit findings

Problems with internal controls

Authorities' auditors informed management that their internal controls lack:

- segregation of duties for accounts payable
- supporting documentation for board expense claims paid
- control over access to computer systems, such as purchasing and payroll
- disaster recover plans and business continuity plans
- regular review of firewall logs

Authorities must report to the Department whether they accept their auditors' recommendations and when they will implement them.

4.3.2 Unqualified auditor's opinions on the six Health Authorities and two Boards we audit

We issued unqualified auditor's reports on the financial statements of the six health authorities and two provincial boards we audit. See Scope, on page 115 of our report, for a list of these entities.

4.3.3 Unqualified auditor's opinions issued on the three Health Authorities we don't audit

The financial statements of three health authorities that we don't audit received unqualified auditor's opinions from their appointed auditor.

Human Resources and Employment

Summary: what we found in our audits

Systems

The Ministry implemented our 2002–2003 recommendation to ensure the new contract management administration system meets user needs—see page 138.

Performance reporting

Our auditor's report on the Ministry financial statements is unqualified and we found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

- Performance reporting—Workers' Compensation Board (WCB)
  We issued an unqualified auditor's opinion on the financial statements of WCB for the year ended December 31, 2005. Also, we found no exceptions when we completed specified auditing procedures on WCB's performance measures in its accountability framework.

- Performance reporting—Employee benefit plans
  We issued unqualified auditor's reports on the financial statements of the employee benefit plans listed in section 3.3 of Scope.

Overview of the Ministry

Ministry entities

The Ministry delivers programs and services through the Department of Human Resources and Employment, the Personnel Administration Office (PAO), the Alberta Labour Relations Board, the Appeals Commission for Alberta's Workers' Compensation, and the Workers' Compensation Board. Through PAO, the Ministry also administers employee benefit plans to offer long-term disability, medical and dental benefits to government employees.

Ministry spent $777 million

In 2005–2006, the Ministry spent $777 million on the following core businesses described in its 2005–2008 business plan:

	(millions of dollars)
People Investments	423
Skills Investments	277
Workplace Investments	26
Human Resource Management	13
Labour Relations–Adjudication, Investments and Mediation	3
Workers' Compensation Appeals	8
Other	27

Ministry received $248 million

The Ministry received $248 million in 2005–2006, $209 million of which came from the following transfers from the Government of Canada:

	(millions of dollars)
Labour market Development Agreement Benefits	119
Canada Social Transfer	64
Rehabilitation of Disabled Persons	25
Canadian Agriculture Skills Services	1

4 strategic themes for WCB

WCB's 2005 strategic plan describes four strategic themes to guide it:

- Commitment to fairness
- Focus on return to work
- Leveraging prevention
- Financial stability

WCB's 2005 financial results

WCB's financial results are reported for the calendar year and are not consolidated with the Ministry. Its financial results are summarized as follows:

	(millions of dollars)
Revenue	1,537
Expenses	951
Assets	6,241
Liabilities	4,715
Reserves and fund balance	1,526

For more information on the Ministry and its programs, see its website at www.gov.ab.ca/hre. For more information on WCB and its programs, see its website at www.wcb.ab.ca.

Scope: what we did in our audits

1. Systems

We followed up our 2002–2003 recommendation that the Department ensure the new contract management administration system meets user and management requirements.

2. Performance reporting

We audited the financial statements of the Ministry of Human Resources and Employment the year ended March 31, 2006 and we completed specified auditing procedures on the Ministry's performance measures. We also audited the March 31, 2006 Labour Market Development Claim and the March 31, 2005 Employability Assistance for People with Disabilities Claim.

3. Other entities that report to Minister

3.1 Systems—Workers' Compensation Board

We followed up on our 2002–2003 recommendation that WCB strengthen controls in its claim management system for economic loss payments.

3.2 Performance reporting—Workers' Compensation Board

We audited the financial statements of WCB for the year ended December 31, 2005 and completed specified auditing procedures on WCB's performance measures included in its accountability framework. We also audited the schedule of administrative charges of WCB for the year ended December 31, 2005.

3.3 Performance reporting—Employee benefit plans

We audited the financial statements of the following employee benefit plans under Ministry administration:

- Long Term Disability Income Continuance Plan–Bargaining Unit and Long Term Disability Income Continuance Plan–Management, Opted Out and Excluded for the year ended March 31, 2006
- Government of Alberta Dental Plan Trust for the year ended December 31, 2005
- Government Employees' Extended Medical Benefits Plan Trust for the year ended December 31, 2005

Our audit findings and recommendations

1. Systems

Contract Management Administration System—implemented

Contracts in CMAS monitored

On pages 168–169 of our *2002–2003 Annual Report*, we recommended that the Ministry ensure the Contract Management Administration System (CMAS) meets user requirements. Management has now finished implementing the recommendation by meeting the fourth criterion: monitoring the contracts in CMAS. Management now has system-generated reports to monitor when contracts are created and approved and when invoices are paid. Management also developed a Contract Management Ad-Hoc Reporting Tool and implemented it at the end of September 2005.

2. Performance reporting

Our auditor's report on the Ministry financial statements is unqualified and we found no exceptions when we completed specified auditing procedures on the Ministry's performance measures. We also issued unqualified auditor's reports on the Ministry's two federal claims.

3. Other entities that report to the Minister

3.1 Systems—Workers' Compensation Board

Economic loss payments—implemented

Background

New procedures implemented

On page 241 of our *2004–2005 Annual Report*, we reported satisfactory progress on our *2002–2003 Annual Report* recommendation (page 175) that the WCB strengthen controls in its claim management system for economic loss payments (ELPs).

ELP benefits: time a factor

ELPs are benefits paid when workers suffer permanent wage losses due to a workplace injury. Deciding whether work restrictions are permanent can be done only after a worker's medical and vocational status stabilizes. The time it takes for status to stabilize varies by injury type and worker circumstances—it can take years.

What still remained

Last year, we noted that WCB's Quality Assurance group needed to complete its reviews of ELP decisions and management had to assess whether the controls in place were sufficient based on these reviews.

Our audit findings

Controls strengthened

WCB's Quality Assurance group finalized its review of the 2004 entitlement decisions. Management responded to the findings by strengthening controls to correct weaknesses found, in addition to the controls introduced last year. For example, management:

- added a new screen to the claim management system to assist reviewers and approvers in finding the information they require
- further improved management review and monitoring

Controls working

To confirm that changes to the control environment were effective, WCB management reviewed certain files with high future ELP payments. They concluded that entitlement decisions were correct. Our testing of the key controls in the financial statement audit found no exceptions.

3.2 Performance reporting—Workers' Compensation Board

Unqualified opinions and no exceptions

We issued an unqualified auditor's opinion on the financial statements of WCB for the year ended December 31, 2005. Also, we found no exceptions when we completed specified auditing procedures on WCB's performance measures in its Accountability Framework. We also issued an unqualified auditor's opinion on the schedule of administrative charges of WCB for the year ended December 31, 2005.

3.3 Performance reporting—Employee benefit plans

Unqualified opinions

We issued unqualified auditor's reports on the financial statements of the employee benefit plans listed in section 3.3 of Scope.

Infrastructure and Transportation

Summary: what we found in our audits

Performance reporting

Our auditor's report on the Ministry's financial statements for the year ended March 31, 2006 is unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Other audits

We issued unqualified auditor's opinions on the statements of eligible expenditures of the:

- Canada—Alberta Strategic Highway Infrastructure Program, and
- Canada Strategic Infrastructure Fund provided to the Edmonton Southeast Anthony Henday Drive project, and the Calgary Northwest Stoney Trail Ring Road project.

We performed these audits at the Ministry's request because the agreements with the federal government require that the statements of eligible expenditures under these programs be audited annually.

Overview of the Ministry

Five core businesses

The Ministry's 2005–2008 business plan identified five core businesses:

- Manage provincial transportation safety programs
- Plan, develop and manage government-owned infrastructure
- Partner with municipalities and boards to plan, develop and implement infrastructure that meets local needs
- Represent Alberta's interests in transportation policy
- Provide strategic services to government ministries, boards and agencies

Ministry spent $3.5 billion

In 2005–2006, the Ministry spent approximately $3.5 billion on the following:

	(millions of dollars)
Municipal support program	1,110
Education, health and seniors lodges	700
Provincial highway systems and safety	643
Energy rebates	634
Infrastructure operation, preservation and expansion	364
Emergent projects	6
Water management	1

Ministry received $221 million

The Ministry's revenue from sources external to the government in 2005–2006 was $221 million.

For more detail on the Ministry, visit its website at www.inftra.gov.ab.ca.

Scope: what we did in our audits

1. Systems

   We followed up on our previous year's recommendations on:

   - Public Private Partnership
   - Air Transportation Services
   - Construction grants
   - Commercial and Motor Vehicle Inspection programs
   - Physical security of government buildings
   - Swan Hills Treatment Plant

2. Performance reporting

   We audited the Ministry's financial statements for the year ended March 31, 2006. We completed specified auditing procedures on the Ministry's performance measures.

3. Other audits

   We audited the statement of eligible expenditures of the Canada-Alberta Strategic Highway Infrastructure Program. We also audited the statements of eligible expenditures that the Canada Strategic Infrastructure Fund provided to the Edmonton Southeast Anthony Henday Drive project and the Calgary Northwest Stoney Trail Ring Road project for the year ended March 31, 2006.

Our audit findings and recommendations

1. Systems

1.1 Public Private Partnerships (P3s)—implemented

Background

Our audit findings

In our *2003–2004 Annual Report* (No. 2 – page 63), we recommended that the Department of Infrastructure and Transportation, as the Chair of the Deputy Minister Capital Planning Committee (DMCPC), work with the Department of Finance and other departments to:

- improve the definition of a P3
- determine key prerequisites to identify projects most suitable for P3s

- define when differences in key processes are appropriate
- improve the timeliness of information and the overall analyses of alternatives to decision makers
- define what constitutes a significant change in project scope
- evaluate transparency and accountability of P3s

Processes may change further

In 2003–2004 the two Departments of Infrastructure, and of Transportation, were responsible for most of the projects in the *Capital Plan* including potential P3 projects. Last year, the two Departments were merged and a new Minister was appointed. In 2005–2006 capital funding for schools, post-secondary institutions, and regional health authorities moved to the respective program ministries from the Department of Infrastructure & Transportation. Also, this year the new role of Associate Minister of Capital Planning was established.

Last year, the Department indicated that it was not planning to change the P3 systems until the DMCPC finished its review of the capital planning process. Therefore, we did not fully assess the implementation of this recommendation. However, we did finish auditing the criteria that we were unable to audit in 2003–2004. We did so by reviewing the completed assessment and procurement phases of the Calgary Courts Centre and Southeast Edmonton Ring Road. From this review, we observed that the Department could improve the overall analyses provided to decision makers by:

- determining the appropriate amount of design information necessary to prepare the Public Sector Comparator
- developing a reasonable range of costs based on the precision of the design information used to prepare the Public Sector Comparator
- defining when a shadow bid is appropriate

In a November 1, 2005 letter to us, the Department again agreed to implement the initial recommendation and also agreed to address the additional observations from our follow-up audit.

Our audit findings

Two frameworks establish P3 processes

Our recommendation has been implemented. Two frameworks were developed and approved by the DMCPC. One framework sets out the assessment process, while the other, sets out the procurement process for P3s. We reviewed both of these documents. The Department agreed to some changes to the two documents—based on our review. The Department also plans to write a procurement guide to accompany the frameworks.

1.2 Air Transportation Services

1.2.1 Program assessment—implemented

Background

The Department of Infrastructure & Transportation operates a fleet of four aircraft. Last year, we recommended that the Department prepare and maintain a program assessment, including an analysis of the air fleet's use and an overall cost-benefit analysis of the program (*2004–2005 Annual Report*—No. 35, page 252).

Our audit findings

Program assessment—the Department hired a consultant who prepared two reports. One report describes the existing practices of the Air Transportation Service (ATS), while the other evaluates the fleet configuration. The Department also updated its costing information for the program. When completing our follow up audit in July, management was completing its final program assessment using the consultant reports and updated costing information.

Members accountable for use of aircraft

Clarifying the use policy—the Department rejected our suggestion for a more specific policy, submitting that it would be difficult to capture all uses in a policy statement and that ultimately members of Executive Council are accountable for their use of the aircraft. We accepted this position because the Department instituted a reporting process to help ensure accountability for aircraft use.

1.2.2 Improving air fleet booking procedures and communication to users—implemented

Background

Last year, we recommended that the Department improve air fleet booking procedures and communication to potential users about the program to help them make cost-effective travel decisions (*2004–2005 Annual Report*—page 255). Potential users of the ATS did not always know if the ATS was available to them.

Our audit findings

Communicating information to users to improve effectiveness and efficiency—the Department took several steps to improve communication about the availability and cost of its services to users. It improved information on availability by:

- regularly updating the 7-day flight schedule on its intranet site
- adding a Frequently Asked Questions section to the intranet site, which explains that all provincial employees are eligible to use the aircraft—with proper approval
- linking the ATS intranet site to the intranets of 14 other Departments

The Department plans to do presentations about the ATS at a deputy minister meeting and administrative symposium next year. We reviewed the draft presentation. It explains who can use the aircraft and what factors can make the ATS a cost-effective travel option.

The Department improved communication about the cost of the service by updating its costing information and providing the cost of flights to sample locations on its intranet site so users can compare it to other alternatives when making travel decisions.

In addition, the Department acquired a computer program to provide better cost-benefit analyses to users. It can:

- automatically search the internet for commercial flights to compare their cost to the cost of an ATS flight.
- compare costs, such as commercial ticket prices, to the ATS's operating costs per flight, such as fuel and landing charges.
- compare mileage and parking or taxi costs at the international and municipal airports.
- estimate passenger time savings. For example, depending on the availability of commercial flights, passengers may have to stay overnight, instead of using the ATS and returning the same day. The program estimates both the number of hours and value of time saved by not having to stay overnight, as well as the saved hotel costs.
- estimate the difference in productive time saved using the ATS versus a commercial flight, since less time is spent in public areas, and instead, used to conduct business.

Software helps make complete cost-benefit decisions

Coordination of charter flights—although no formal cross-government process exists to coordinate charter flights, the ATS can help users make cost-effective travel decisions by providing better information about its own services and costs. With improved communication on the ATS, users will be more likely to compare the costs of charter flights with the ATS and make good decisions.

Completeness of data in flight information system—the Department changed its flight information database so that if a flight is cancelled before being logged, it is not deleted from the database. Instead, the flight gets a different status code showing it was cancelled. We obtained an extract of the database and checked the sequence of the flight and leg numbers the same way we did in the original audit. We found 1 missing leg number and 3 missing flight numbers. The Department's data showed that these numbers were not assigned in the flight and leg sequences because of a technical limitation in the database management system. Management has agreed to track these cases to account for each flight and leg number publicly reported.

1.2.3 Public reporting of fleet use details—implemented

Background

Last year, we recommended that the Department of Infrastructure and Transportation publicly report fleet use details permitted to be disclosed by the *Freedom of Information and Privacy Act* (No. 36—page 258).

Our audit findings

The Department implemented this recommendation by establishing an ongoing reporting process. Monthly, the ATS sends a report to the Legislature library showing who travelled where and when on each government aircraft. The report also briefly explains why the trip took place. We agreed with the Department that since members of Executive Council are individually accountable for their use of the aircraft, if readers of the report want more detailed information about a particular trip, they should ask the members directly.

However, the report did not include the complete sequence of all flight and leg numbers. The Department indicated that the missing flights were either tentatively scheduled and later cancelled or combined with another flight. The Department agreed that the report should be complete and list all flight and leg numbers. It will make sure the report does so from now on as indicated in section 1.2.2 above.

1.3 Construction grants

1.3.1 Terms and conditions of construction grants—implemented

Background

The Department provides construction grants to school jurisdictions, regional health authorities and post-secondary institutions. In our *2002–2003 Annual Report* (No. 26—page 181), we recommended the Department communicate, and require grant recipients to formally accept, the terms and conditions of construction grants.

Last year, we reported that the Department made satisfactory progress implementing our recommendation by drafting agreements for regional health authorities and post-secondary institutions based on the draft school jurisdiction agreement. We also reported that the Department had continued drafting contracting manuals for use by regional health authorities and post-secondary institutions to make grants conditional on compliance with these manuals.

Our audit findings

Draft grant agreements updated

This year, the Department implemented this recommendation by completing the updated draft common grant agreement and contracting manuals. The Department decided that common grant agreements and contracting manuals for all school jurisdictions, post-secondary institutions and regional health authorities are more practical. The updated draft common agreement outlines terms and conditions of the grant. The updated draft contracting manual requires grant recipients to follow contracting practices. For example, guidance on requests for proposal procedures, contracting requirements, and contractor selection standards.

Common responsibility on infrastructure programs between Department and program departments

Effective April 1, 2006, funding for infrastructure programs for schools, post-secondary institutions and health care facilities was transferred from the Department to the departments of Education, Advanced Education, and Health and Wellness, respectively. Management of these programs is now the common responsibility of this Department and the program departments. The Department drafted a memorandum of agreement with each of the three program departments to define roles and responsibilities between it and them for construction grant management, consultation and monitoring.

1.3.2 Monitoring of construction grants—implemented

Background

In our *2002 - 2003 Annual Report* (No. 27—page 182), we recommended the Department strengthen its monitoring processes for construction grants and make all construction grant payments through the Consolidated Cash Investment Trust Fund bank account.

Last year, we reported that the Department made satisfactory progress by improving its monitoring of construction grants for post-secondary institutions. We noted that the Department could improve its monitoring by rating projects based on a formal risk assessment.

We also reported that the Department researched ways to ensure the grants are properly segregated, proper monitoring information is available, and a sufficient level of investment return is achieved.

Our audit findings

Common accountability framework for monitoring drafted

This year, the Department implemented this recommendation by completing the draft common accountability framework for monitoring all school, post-secondary institution, and health care facility projects. The draft framework imposes a higher degree of monitoring for grants. It includes requirements for government review and approval of project planning documents at key project milestones, contract documents, project scope changes, and contractor selection. Grant recipients must also submit a final project cost report.

Policy to link monitoring level with risks drafted

In addition, the Department drafted a policy to link monitoring level for the post-secondary institution projects with their risks. The Department is also developing a departmental risk management framework to assess and mitigate program risks.

The draft common grant agreement described in section 1.3.1 requires recipients to deposit grants in interest-bearing accounts. Recipients have to report the interest earned and obtain government approval before using the interest.

1.3.3 Construction management contracts—implemented

Background

In our *2002–2003 Annual Report* (page 185), we recommended the Department implement a process to ensure that contracts with construction managers protect the Department's interests as a funder and are cost-effective. Last year, we reported that the Department made satisfactory progress by drafting the *Contracting Directive*, outlining the Department's requirements and guidance on using the construction management project delivery system.

Our audit findings

Contracting directive revised, contracting manual developed

This year, the Department implemented the recommendation. It also developed a common contracting manual for school jurisdictions, post secondary institutions, and regional health authorities.

1.4 Commercial Vehicle and Motor Vehicle Inspection Programs (Inspection Programs)

1.4.1 Monitoring process for inspection programs—satisfactory progress

Background

In our *2003–2004 Annual Report* (No. 29—page 301), we recommended the Department strengthen its monitoring processes for its vehicle inspection programs.

Last year, we reported that the Department made satisfactory progress by:

- drafting policies and procedures for vehicle safety investigators to clarify management expectations of them and help them perform consistently,
- improving processes to ensure compliance by inspection facilities and technicians,
- improving processes to ensure contract auditors comply with their contracts, and
- developing a system to identify facilities due for review, provide reports for facilities evaluation, and report to senior management.

Our audit findings

This year, the Department continued to make satisfactory progress by:

- implementing a policies-and-procedures manual for vehicle safety investigators,
- developing the Vehicle Inspection Program system and using it to record information on facility and technician licensing, monitoring and auditing,
- developing a risk management plan that identifies, and analyses risks in the licensing and administrative process, and specifies mitigation strategies, and producing a Compliance Management Principles document as a common framework to ensure compliance operations meet current regulations, and
- incorporating a specific provision in the new contract with contract auditors requiring the auditors to provide monthly activity reporting,

Continued effort to improve review process and reporting to senior management

To achieve its goal of identifying facilities and technicians for auditing, monitoring and intervention, and generate meaningful reports for senior management, the Department continues to gather information on inspection facility and technician profiles. It enters this information in the Vehicle Inspection Program system. The Department expects to improve the reporting functionality and review processes of the system in 2006—2007.

What remains

To fully implement our recommendation, the Department must finish gathering information on inspection facility and technician profiles, and enter it into the system. It must also finish improving the reporting process to provide meaningful periodic performance and activity reports to senior management.

1.4.2 Licensing of inspection facilities and technicians—satisfactory progress

Background

In our *2003–2004 Annual Report* (No. 30—page 303), we recommended the Department improve the process to license inspection facilities and technicians. Last year, we reported that the Department made satisfactory progress by:

- implementing certificate processing procedures for licensing inspection facilities and technicians, and Code of Practices,
- proposing a Vehicle Inspection Regulation that will authorize the Department to perform criminal record checks on applicants, and
- working with the Department of Advanced Education to develop continuing competency examinations for new and renewing applicants.

Our audit findings

This year, the Department continued to make satisfactory progress by:

- implementing Code of Practices for inspection facilities and technicians,
- documenting interpretation guidelines for the proposed vehicle inspection regulation to define when an applicant will pass or fail the criminal background check. However, the government must enact the proposed regulation before the Department can actually check criminal records of applicants, and
- implementing policies and procedures to require all facilities be audited by contract auditors before the Department licenses them.

New competency examinations

The Department also developed continuing competency examinations for technicians and signed contracts with eight post-secondary institutions to conduct examinations for the Motor Vehicle Inspection Program in 2006–2007. All new and current technicians must pass the examination and all current applicants may have to take the examination again when their licences are due for renewal every 5 years, depending on their performance, education and personal development. The Department is still developing continuing competency examinations for the Commercial Vehicle Inspection Program.

What remains

To finish implementing our recommendation, the Department must:

- implement the new licence application and renewal process, including criminal record checks—if the government enacts the proposed regulation, and
- finish developing continuing competency examination for the Commercial Vehicle Inspection Program and implement it.

1.5 Physical security of government buildings—satisfactory progress

Background

In our *2002–2003 Annual Report* (No. 28—page 187), we recommended that the Department improve the security of government buildings and the safety of the people who use them. Management accepted our recommendation and indicated they would work towards implementing a better system. In our *2004–2005 Annual Report*, we reported that the Department had made satisfactory progress implementing our recommendation, but needed to complete security audits on single-client-use buildings and develop cost estimates and schedules for bringing all buildings to recommended standards.

Our audit findings

The Department made satisfactory progress by:

- delivering physical and building security awareness presentations to approximately 1,500 employees,
- approving a comprehensive departmental action plan,

- completing initial stages of a project to capture single-client-use building information and cost estimates in a management system, targeted for completion by March 31, 2007, and
- hiring a consultant to develop technical standards and criteria to ensure consistent application of security principles.

What remains

To fully implement our recommendation, the Department needs to complete the final stages of security audits for single-client-use buildings and finish developing cost estimates and schedules for bringing all buildings to recommended standards.

1.6 Swan Hills Treatment Plant—implemented

Background

Processes needed

In our *2003–2004 Annual Report* (No. 24—page 216), we recommended that the Department establish a process to assess whether the Swan Hills Treatment Plant is meeting its objectives. We also found that the Department did not have a process or system to periodically assess the Plant operations at a strategic level, with a long-term focus. We did not assess the Department's progress last year because it needed time to develop a strategic assessment framework.

Our audit findings

Strategic assessment framework developed

The Department implemented the recommendation by developing a *Strategic Assessment Framework* to assess Plant operations. The framework involved establishing two committees: the Steering Committee, to oversee development of the framework and periodic assessments of operations, and the Working Committee, to perform strategic assessments. The Department completed a report outline which includes:

- background of the Plant,
- market and financial trends analyses,
- advantages and challenges of operating the Plant, including financial, environmental, political and market factors,
- options available to the government; and
- observations and recommendations.

Strategic assessment report to be done every five years

The Department plans to complete a strategic assessment report every five years. The Department plans to complete the first assessment report by December 31, 2007.

2. Performance reporting

2.1 Financial statements

Our auditor's report contains an unqualified opinion on the Ministry's financial statements for the year ended March 31, 2006.

2.2 Performance measures

We found no exceptions when we completed the specified auditing procedures on the Ministry's performance measures.

3. Other audits

We issued unqualified opinions on the statements of eligible expenditures for the Canada—Alberta Strategic Highway Infrastructure Program; and the Canada—Alberta Canada Strategic Infrastructure Fund provided for the Edmonton Southeast Anthony Henday Drive project and the Calgary Northwest Stoney Trail Ring Road project.

The agreements with the federal government require that eligible expenditures under the programs be audited annually and we performed the audits at the Ministry's request.

Innovation and Science

Summary: what we found in our audits

Performance reporting

Our auditor's reports on the financial statements of the Ministry, Department, Alberta Research Council (ARC), and iCORE Inc., are unqualified. We found errors and unexplained differences when we completed specified auditing procedures on the Ministry's performance measures—see page 154.

Other entities that report to the Minister

Our auditor's reports on the financial statements of the Alberta Heritage Foundation for Medical Research (AHFMR), Alberta Foundation for Health Research (AFHR), and Alberta Heritage Foundation for Science and Engineering Research (AHFSER) are unqualified.

Overview of the Ministry

Ministry entities

The Ministry consists of the Department, ARC and iCORE Inc..

Other entities reporting to the Minister

AHFMR, AFHR and AHFSER report through the Minister of Innovation and Science to the Legislative Assembly.

Core business

The Ministry's 2005–2008 business plan lists one core business--innovation.

Revenues from external sources were $36 million

In 2005–2006, the Ministry received approximately $36 million from sources external to government, consisting mainly of contract revenue from research and development projects.

Ministry expenses were $199 million

The Ministry's expenses were approximately $199 million, consisting mainly of the following:

	(millions of dollars)
Research and innovation	195
Ministry support services	4

For more information on the Ministry, visit its website at www.innovation.gov.ab.ca.

Scope: what we did in our audits

Performance reporting

We audited the financial statements of the Ministry, Department, ARC and iCORE Inc. for the year ended March 31, 2006. We also performed specified auditing procedures on the performance measures in the Ministry's 2005–2006 annual report.

Other entities that report to the Minister

We audited the financial statements of AHFMR, AFHR and AHFSER for the year ended March 31, 2006.

Our audit findings and recommendations

Performance reporting

Exceptions were found

Our specified auditing procedures on the Ministry's performance measures found errors and unexplained differences relating to the following six measures:

- Ratio of private and other public investments in energy research to Government of Alberta (GOA) investments in energy research
- Non-GOA and GOA investment in energy research
- Ratio of private and other public investments in Information and Communications Technology (ICT) research to GOA investments in ICT research
- Investment in ICT research
- Ratio of other private and other public investments in life sciences research to GOA investments in life sciences research
- Investment in life sciences research

The Ministry has explained in the Results Analysis section of its annual report that procedures and systems to maintain and report this information are being developed and improved.

International and Intergovernmental Relations

Summary: what we found in our audits

Performance reporting

Our auditor's report for the Ministry's financial statements is unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Three core business

The Ministry's 2005–2008 business plan describes three core businesses:

- Canadian Intergovernmental Relations
- International Relations
- Trade Policy

Ministry spending and funding

In 2005–2006, the Ministry spent $9.9 million. The Ministry receives no revenue from sources external to the government.

For further details about the Ministry, visit its website at www.iir.gov.ab.ca.

Scope: what we did in our audits

Performance reporting

We audited the financial statements of the Ministry for the year ended March 31, 2006. We completed specified auditing procedures on the Ministry's performance measures.

Justice and Attorney General

Summary: what we found in our audits

Systems

The Ministry implemented a process to ensure that support payments for children in care are made to the right party—see page 158.

Performance reporting

We issued unqualified auditor's reports on the financial statements of the Ministry and the Office of the Public Trustee, Estates and Trusts. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Four core businesses

The Ministry's 2005–2008 business plan describes four core businesses:

- Prosecutions
- Courts
- Legal and strategic services to government
- Justice services to Albertans

Ministry received $129 million

Total revenue for the Ministry was $129 million in 2005–2006. The Ministry's main revenue sources are:

	(millions of dollars)
Fines and related late payment penalties	59
Fees	37
Transfers from the federal government	13

Ministry spent $303 million

The total operating expenses for the Ministry were $303 million in 2005–2006, comprised mainly of:

	(millions of dollars)
Court services	133
Legal services	83
Support for legal aid	31
Motor vehicle accident claims	29
Office of the Public Trustee	10
Medical examiner	6

Ministry manages trust funds

The Ministry manages trust funds of approximately $546 million. This amount includes $481 million administered by the Office of the Public Trustee.

For more detail on the Ministry, visit its website at www.gov.ab.ca/just/.

Scope: what we did in our audits

1. Systems
   We followed up on our previous recommendation to improve the Ministry's system for processing maintenance enforcement payments.

2. Performance reporting
   We audited the financial statements of the Ministry and the Office of the Public Trustee, Estates and Trusts for the year ended March 31, 2006. We completed specified auditing procedures on the Ministry's performance measures.

Our audit findings and recommendations

1. Systems

1.1 Maintenance Enforcement Program—implemented

Background

Information needed on children in care

In our *2002–2003 Annual Report* (page 215), we recommended that the Ministry obtain sufficient information from the Ministry of Children's Services to ensure that it makes support payments for children in care to the right party. On average, the Ministry makes monthly payments to the Ministry of Children's Services for 30 children in care who have maintenance orders identifying the Ministry of Children's Services as the maintenance recipient. The average monthly payment is $550 per child and total annual payments are approximately $198,000.

Our audit findings

Manual process ensures support payments go to right party

The Ministry implemented this recommendation by putting a manual process in place to share information on children in care with the Ministry of Children's Services. We tested this manual process and found that it is working effectively. Children's Services informs the Ministry when it takes children with existing maintenance orders into care. The Ministry confirms that a maintenance order is in place and sends maintenance payments to Children's Services for the child in care—consistent with the order. The Ministry also gives Children's Services a monthly report on all children it has made maintenance payments to Children's Services for.

The Ministry and Children's Services are also evaluating an automated system that would improve the efficiency of the process.

Municipal Affairs

Summary: what we found in our audits

Performance reporting

Unqualified opinion

Our auditor's reports on the Ministry and Department financial statements for the year ended March 31, 2006 are unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Other entities

Performance reporting

Unqualified opinion

Our auditor's reports for the year ended December 31, 2005, on the following financial statements are unqualified:

- Improvement Districts 4, 9, 12, 13 and 24
- Kananaskis Improvement District
- Special Areas Trust Account

Overview of the Ministry

The Ministry's 2005–2008 business plan describes four core businesses:

Four core businesses

- Local Government Services
- Emergency Management Alberta
- Safety Services and Fire Protection
- Municipal Government Board

Ministry spent $299 million

Ministry expenses for 2005–2006 were $299 million and consisted of:

	(millions of dollars)
Local Government Services	103
Emergency Management Alberta	173
Safety Services and Fire Protection	8
Municipal Government Board	3
Ministry Support Services	12

$159 million in revenue

The Ministry's revenues of $159 million include a $132 million recovery from the federal government in disaster assistance.

For more information on the Ministry and its programs, visit its website at www.municipalaffairs.gov.ab.ca

Scope: what we did in our audits

Systems audits

1. We followed up on our previous recommendations on information technology (IT) management controls.

Financial statements

2. We audited the financial statements of the Ministry and Department for the year ended March 31, 2006. The Ministry financial statements consolidate the Safety Codes Council on a modified equity basis.

Performance measures

We completed specified auditing procedures on the Ministry's performance measures.

3. We audited the following financial statements for the year ended December 31, 2005:

Other entities

- Improvement Districts: # 4, 9, 12, 13 and 24
- Kananaskis Improvement District
- Special Areas Trust Account

Our audit findings and recommendations

1. Systems

1.1 IT management controls—satisfactory progress

Background

In our *2003–2004 Annual Report* (page 265), we recommended that the Ministry of Municipal Affairs approve its draft security policies, and implement procedures so that only authorized users can access the Ministry's systems and data. We also recommended that the Ministry:

- implement a risk assessment framework to manage IT risks, and
- obtain independent assurance on the outsourced computer general control environment.

Our audit findings

The Ministry made satisfactory progress on implementing these recommendations by:

Classifying data

- completing a portion of its risk assessment framework by identifying and classifying its data based on confidentiality, integrity and availability.

Updating draft security policy

- updating its draft security policy based on a revised Government of Alberta security policy.

What remains

To fully implement these recommendations, the Ministry needs to:

- complete its risk assessment framework by improving its security measures—based on its information systems classification. The target date for completion is March 2007.
- approve the draft security policy, assign responsibilities, and enforce policy compliance. The target date for approval of the policy is September 30, 2006 pending approval of Government of Alberta policy.
- include a requirement for independent assurance on the outsourced application maintenance environment in its contracts with service providers—as part of its contract renewal process. This is expected to be completed by March 31, 2007.

2. Performance reporting

2.1 Financial statements

We issued unqualified opinions on the Ministry's and Department's financial statements for the year ended March 31, 2006.

Unqualified opinions

2.2 Performance measures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

3. Other entities

Performance reporting

We issued unqualified opinions on the following financial statements for the year ended December 31, 2005:

Unqualified opinions

- Improvement Districts # 4, 9, 12, 13 and 24
- Kananaskis Improvement District
- Special Areas Trust Account

Restructuring and Government Efficiency

Summary: what we found in our audits

Systems

Our findings and recommendation on Information Technology Project Management are included in the Cross-Ministry section—see Volume 1, page 163.

The Ministry made satisfactory progress improving its performance measures and the processes it uses to track and report results—see page 164.

The Ministry needs to improve controls over information processing by:

- ensuring that the systems it administers comply with the government's standards for computer security—see page 165,
- administering its clients' antivirus software in accordance with its service level agreements and Government of Alberta requirements—see page 167,
- improving the environmental and security controls of the data centres it maintains—see page 168, and
- documenting and logging its backup and related procedures—see page 169.

Performance reporting

Our auditor's report on the Ministry financial statements for the year ended March 31, 2006 is unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Four core businesses

The Ministry has four core businesses:

- Opportunity and Restructuring Assessment
- Business Transformation
- Information and Knowledge Management
- Shared Services

Ministry spent $252 million

In 2005–2006, the Ministry spent $252 million, including $191 million on services to government departments.

Ministry received $191 million

The Ministry received $191 million from government departments for delivering services.

For more details on the Ministry, visit its website at www.efficiency.gov.ab.ca.

Scope: what we did in our audits

1. Systems

We followed up on the Ministry's progress in defining its performance measures and improving its processes to track and report results.

We audited the Ministry's controls over information processing to determine whether the Ministry has systems in place to:

- ensure that the systems it administers comply with the Alberta Government's standards for computer security,
- administer its clients' antivirus software in accordance with its service level agreements and Government of Alberta requirements,
- improve the environmental and security controls of the data centres it maintains, and
- document and log its backup and related procedures.

We also followed up on our previous years' recommendations on:

- Contracting policies and procedures
- Disclosure of conflict of interest
- IMAGIS use
- IT disaster recovery plan
- Information technology systems operations and controls
- User awareness of information security responsibilities

2. Performance reporting

We audited the Ministry financial statements for the year ended March 31, 2006. We completed specified auditing procedures on the Ministry performance measures.

Our audit findings and recommendations

1. Systems

1.1 Performance measures systems—satisfactory progress

Background

In our *2001–2002 Annual Report* (No. 22—page 120), we recommended that the Ministry clearly define its performance measures and improve its

processes to track and report results. Because of continuing unsatisfactory progress, we repeated this recommendation in our *2002–2003 Annual Report* (No. 20—page 143), and again in our *2004–2005 Annual Report* (No. 37—page 281).

Our audit findings

This year, the Ministry made satisfactory progress improving its performance measures and its processes to track and report results by:

Measures for Goal 2 insufficient

- improving its *2006—2009 Business Plan* to more clearly define performance measures and targets, and link them to the Ministry's core businesses and goals. However a significant gap remains in a key role of the Ministry as defined in Goal 2: "improve efficiency within the Government of Alberta and across ministries". The measures in the *2006—2009 Business Plan* are relevant, but not sufficient to measure performance on this goal,

Ministry works to further improve the performance measures

- using, in its *2006—2009 Business Plan*, measures that are easier to report on. As we reported last year, the *2005—2008 Business Plan* had measures that were vague and difficult to define and report on. The *2006—2009 Business Plan* replaces these measures with new ones that are more understandable and easier to measure and report. The Ministry is also working to further improve the measures in the *2007—2010 Business Plan*, and

Ministry further improves tracking and reporting performance information

- further improving its processes for tracking and reporting results to ensure that performance information is reliable. For each performance measure in the *2005—2006 Ministry Annual Report*, a template is used to document the reason for the measure, the controls in place, and the results for each quarter. Ministry staff also review and sign off on the accuracy of the performance measure information.

What remains

To finish implementing the recommendation, the Ministry must develop a performance measure for Goal 2 showing its contribution in improving efficiency in the Alberta Government and across ministries.

1.2 Security administration

Recommendation

We recommend that the Ministry of Restructuring and Government Efficiency ensure that the systems it administers comply with the Alberta Government's standards for computer security.

Background

The Ministry maintains and authenticates passwords throughout the Government of Alberta (GoA) and is also the system administrator for other government entities' applications and data.

Standards exist to protect users information

The GoA *Identity and Authentication Standard* defines acceptable password controls and the GoA *Information Technology Baseline Security Requirements* policy states that "passwords must not be ... transmitted in clear text" and requires that the Ministry "ensure threats and vulnerabilities of networks and systems ... do not reduce ... the government's security."

Criteria: the standards we used for our audit

The Ministry should ensure that:

- the systems that it administers comply with the GoA *Identity and Authentication Standard*, and
- websites and servers that it maintains adequately protect user names and passwords transmitted over computer networks, and provide users with a suitable way to easily verify the authenticity of such sites.

Our audit findings

Computer use does not comply with government standards

Servers that use the Ministry's authentication service and store confidential information allow 84 times the permitted attempts for confidential systems as allowed by the GoA *Identity and Authentication Standard*. In addition, the systems we reviewed that do not use the Ministry's authentication service allow users to log in without passwords, or allow unlimited log-on attempts.

We also identified several GoA websites the Ministry administers that do not provide certificates to allow users to verify the website's authenticity. In addition, these websites do not provide adequate security over GoA usernames, passwords or other sensitive information.

Implications and risks if recommendation not implemented

Confidential data could be viewed or modified

Weak password controls do not prevent unauthorized users from accessing systems that the Ministry administers. Once system access is compromised, an intruder could view or modify confidential data stored on these systems.

Inadequately-secured websites provide a means for others to intercept user IDs and passwords. This information could then provide access to confidential employee and financial information throughout the Government of Alberta websites and networks.

1.3 Antivirus Updates

Recommendation

We recommend that the Ministry of Restructuring and Government Efficiency administer its clients' antivirus software in accordance with its service level agreements and Government of Alberta requirements.

Background

Antivirus software needs to be updated for effectiveness

The Ministry maintains the antivirus software on the workstations of several GoA ministries. Antivirus software is effective only if it is regularly updated, because new viruses are constantly created. Reflecting the importance of regular updates, the GoA *Information Technology Baseline Security Requirements* states, "all systems must be properly tested, configured, and regularly maintained to ... be protected from malicious software such as viruses."

The Ministry's standard service level agreement states that it will protect its clients from "all known viruses" and "keep software current," and that it will "support and apply current software releases."

Criteria: the standards we used for our audit

The Ministry should:

- maintain its clients' antivirus software in accordance with its service level agreements and GoA requirements, and
- periodically verify that all computers have up-to-date antivirus software.

Our audit findings

Antivirus software is not updated on all computers

The Ministry does not consistently maintain its clients' antivirus software in accordance with service level agreements and GoA requirements. We noted that some workstations maintained by the Ministry use non-standard antivirus software for which the virus signatures have not been updated for five years, and which does not provide adequate protection from viruses created in the last five years.

The Ministry does not have procedures in place to periodically detect unprotected computers.

Implications and risks if recommendation not implemented

Data may be damaged or lost

Inadequately maintained antivirus software can allow malicious programs to access the network and disclose, alter, or destroy sensitive data throughout the GoA.

1.4 Physical security

Recommendation No. 37

We recommend that the Ministry of Restructuring and Government Efficiency improve the environmental and security controls of the data centres it maintains.

Background

Ministry is responsible to maintain secured data centres

The Ministry maintains data centres that contain critical servers to support the clients' core business and financial systems.

The Ministry's *Policy for Physical Access of Shared RGE Data Facilities* outlines the Ministry's responsibilities, such as locking and periodically changing door combinations and keys, and logging access to facilities. Other requirements, such as environmental controls, surveillance, and secure, opaque walls and doors, are industry standards that protect the computer systems and related data in data centres.

Criteria: the standards we used for our audit

Data centres should be secured at all times

The Ministry should ensure that security controls at the data centres it maintains comply with its *Policy for Physical Access of Shared RGE Data Facilities*, supplemented, when necessary, with industry-leading environmental and security standards.

During construction and renovation, additional security measures should be in place to compensate for temporarily unavailable security controls such as doors, alarm systems, and walls.

Our audit findings

Data centres do not have adequate physical and environmental controls

Data centres we examined had inadequate environmental and security controls. Specifically:

- the Ministry does not have schedules to change key and combination locks, and does not enforce its server room visitor log policy or automatically log who accesses its data centres,
- there is inadequate surveillance and monitoring of access to data centres,
- data centres under construction have particularly weak physical access controls,
- data centres do not all have automatic fire suppressant systems; some hand-held fire extinguishers in data centres have not been inspected for over a year, and

- the Ministry has mechanisms in place to monitor humidity and temperature; however, some mechanisms were not working and others were configured to allow dangerous humidity and temperature extremes. Some server rooms were dry enough to pose a significant risk for static electricity while others were humid enough to pose a risk of corrosion.

Implications and risks if recommendation not implemented

Computer hardware, software and data could be lost or damaged

If server rooms are not adequately secured, unauthorized individuals could easily gain access to the Ministry's clients' servers and confidential data.

Inappropriate environmental conditions, such as extreme humidity levels, extreme temperature levels and excessive dust could damage the servers or backup tapes. This can result in inconsistent or irrecoverable data.

1.5 Documented procedures and logs

Recommendation

We recommend that the Ministry of Restructuring and Government Efficiency document and log its backup and related procedures.

Background

In organizations with many employees, complex and routine tasks should be documented to ensure that secondary personnel can consistently complete these tasks even when primary personnel are unavailable.

Criteria: the standards we used for our audit

The Ministry should document its procedures to:

- test backups to ensure that required information can be restored,
- transport backup tapes,
- securely dispose of hard drives, CDRs, and backup tapes, and
- react to unusual events.

The Ministry should also keep a documented record of backup tests.

Our audit findings

No documentation exists

The Ministry does not have documented procedures for backup testing and transportation, media disposal, or for reacting to unusual events. We could not find documented evidence of backup tests.

Implications and risks if recommendation not implemented

Data could be lost

When documented procedures are unavailable, and staff is not held accountable through documented logs, failed backups may go unnoticed, and data may be lost. If a backup tape drive fails before a hard drive

failure, all data created since the last successful backup will be lost. This may result in lost person-hours recreating work, unfilled contractual obligations, and a loss of public trust.

1.6 Contracting policies and procedures—satisfactory progress

Background

In our *2003–2004 Annual Report* (No. 20–page 177), we recommended that the Ministry develop comprehensive contracting policies and procedures, train its staff on how to follow the policies and procedures and monitor staff compliance with them.

Last year, we reported that the Ministry implemented new contracting policies and procedures, and established a Contracts Review Committee. The Ministry also trained and monitored staff compliance with the policies and procedures.

Because the Ministry signed or renewed most of its contracts before implementing the new policies and procedures, we decided to review operating effectiveness and compliance with the policies and procedures in 2005—2006.

Our audit findings

The Ministry continues to make satisfactory progress improving its contracting systems. The Committee meets regularly to review the awarding of sole-sourced contracts and contracts for more than $25,000. The Ministry also developed the Contract Management Accountability Framework, a contract management tool, to help staff improve their due diligence.

Polices and procedures not always followed. 90-day requirement may not be realistic

The Committee requires the contract management team to submit the contract packages for its review at least 90 days before contracts start. This allows the team enough time to seek alternatives or negotiate further with the contracting parties if the Committee does not approve the contract proposals. In the 10 samples that we tested, the Committee approved one contract after its start date. In addition, the Committee did not receive 3 out of 10 contract packages for its review in the required time. The contract management team told us that the 90-day requirement may not be realistic in all cases.

What remains

To finish implementing our recommendation, the Ministry needs to:

- demonstrate staff compliance with all contracting policies and procedures, and

- set a realistic time requirement to allow the Committee sufficient time to review and comment on contract packages, and establish a process to deal with exceptions.

1.7 Disclosure of conflict of interest—implemented

Background

On page 180 of our *2003–2004 Annual Report*, we recommended that the Ministry require staff involved in contracting to disclose annually in writing that they understand and agree to follow the Code of Conduct. We also recommended that they disclose any potential conflict of interest they may have. Last year, we reported that the Ministry assessed the risks of potential conflicts of interest relative to contracting, and required contract managers to declare that they do not have a conflict of interest in each contract that they enter into. The Ministry's training sessions on contracting policies and procedures also provided guidance on conflict-of-interest issues.

Our audit findings

Contract managers declare independence on every contract

The Ministry implemented the recommendation. Instead of requiring annual declarations by contract managers, the Ministry decided that it is more relevant to require them to declare their independence on every contract that they are about to enter into. This year, we did not identify any non-compliance with the Ministry's policies.

1.8 Alberta Government Integrated Management Information System (IMAGIS) use—satisfactory progress

Background

Government's main financial system.

IMAGIS (a customized version of PeopleSoft) is the computer system that ministries use to process financial transactions, including payments for supplies, services and payroll. It also produces the accounting records that ministries rely on to prepare their financial statements. Alberta Finance uses IMAGIS to prepare the province's consolidated financial statements.

A service provider hosts, operates and maintains IMAGIS under an outsourcing agreement with the Alberta Government.

IMAGIS use not optimized

On page 199 of our *2002–2003 Annual Report*, we recommended that the Deputy Minister of Innovation and Science work with other deputy ministers to optimize the use of IMAGIS. Implementation of IMAGIS began in 1997. However, ministries continue to use other computer systems to process their businesses that IMAGIS could process. In 2004, the government assigned the responsibility for information technology, including IMAGIS, to the Ministry of Restructuring and Government

Efficiency. The Ministry developed a plan to improve the use of IMAGIS. However, ministries continued to develop computer systems with capabilities similar to IMAGIS. Last year, we reported that the Ministry made satisfactory progress by developing a plan to improve IMAGIS processes.

Our audit findings

Criteria developed to improve use

The Ministry continued to make satisfactory progress by developing criteria to evaluate the cost effectiveness of using existing legacy systems and developing new computer systems when IMAGIS has parallel capabilities. This year, the Ministry focused on improving the use of the IMAGIS budget module and the IMAGIS contracting module with considerable success.

What remains

To finish implementing the recommendation, the Ministry, in conjunction with other ministries, must complete and approve the criteria to evaluate the cost effectiveness of operating legacy systems or acquiring new systems when IMAGIS has parallel capabilities.

1.9 IT disaster recovery plan—implemented

Background

Ministry provides services to government

The Ministry provides technology and infrastructure services to ministries from both its Edmonton and Calgary data centres. This includes networking, e-mail, and internet services for most of government, including the Alberta Government website, as well as those ministries' applications that run on the data centre's mainframe and server environments.

On page 181 of our *2003–2004 Annual Report*, we recommended that the Ministry improve the disaster recovery preparedness of the government data centres by:

- having appropriate recovery facilities and equipment available to resume ministries' critical business systems,
- developing a communication strategy and assigning responsibilities for staff, and
- establishing detailed procedures for restoring systems based on ministry priorities.

Our audit findings

Recovery expectations revised and recovery capabilities improved

The Ministry implemented the recommendation by working with all ministries to review and revise the expected recovery timeframe for their critical applications. The Ministry continued to provide adequate capabilities to recover critical applications in the required timeframes. Additionally, it participated in testing the recovery of the ministries'

custom applications and made appropriate revisions to the recovery procedures. The Ministry also acquired additional network capabilities in the Calgary Data Centre and additional storage for both the mainframe and distributed computing environments to aid recovery of applications.

1.10 Information technology systems operations and controls—implemented

Background

In our *2001 2002 Annual Report* (page 123), we recommended that the Ministry improve controls for the Electronic Payment System and the Expense Claim System. The government's contract with an outsourced service provider covers the operation and maintenance of Electronic Payment System and the Expense Claim system. Last year, we found that the Ministry had obtained adequate assurance on the service provider's operations and had developed policies and procedures for access to the Electronic Payment System. It was also drafting policies and procedures for access to the Expense Claim System. To finish implementing the recommendation, the Ministry had to approve and follow the new policies and procedures for the Expense Claim System.

Our audit findings

New policies and procedures for Expense Claim System

The Ministry finished implementing the recommendation by approving new policies and procedures for the Expense Claim System and following them.

1.11 User awareness of information security responsibilities—implemented

Background

Security program developed

In our *2003 2004 Annual Report* (No. 25—page 231), we recommended the Ministry's Corporate Chief Information Officer implement a security program for employees who use government technology. The objective of the security awareness training program is to ensure that all users with access to government information and systems understand the key elements of information security and its importance, as well as their personal information-security responsibilities. Last year, the Ministry developed the Government of Alberta Information Security Awareness and Training Program. The program encourages ministries to adequately train employees for their job requirements.

Our audit findings

Security program implemented

The Ministry finished implementing the recommendation by making security program resources available to ministries in November 2005. These resources consist of videos, online course, calendars and other ways to communicate responsibilities for information security. As of

September 2006, more than 11,000 government employees had accessed the online program—approximately 40% of all government employees.

We will continue monitoring the program in specific ministries to ensure that it increases awareness of information security responsibilities among all users of government information and systems.

Seniors and Community Supports

Summary: what we found in our audits

Systems

We followed up on our May 2005 *Report of the Auditor General on Seniors Care and Programs*. The results are in Volume 1, page 185.

Performance reporting

Our auditor's reports for the Ministry, Department and Alberta Social Housing Corporation are unqualified—see page 178.

We found one exception when we completed specified auditing procedures on the Ministry's performance measures—see page 178.

Other entities that report to the Minister

- Financial statements
  The financial statements of all Persons with Developmental Disabilities Boards (provincial and community) have unqualified auditor's reports—see page 178.

Other audits—cost-sharing claims

- Financial statements
  We issued unqualified auditor's opinions on the cost-sharing claims under the *National Housing Act (Canada)*.

Overview of the Ministry

The Ministry consists of the Department, the Alberta Social Housing Corporation, the Persons with Developmental Disabilities Provincial Board (the Provincial Board) and the six Persons with Developmental Disabilities Community Boards (the Community Boards). Effective July 1, 2006, the Province of Alberta dissolved the Provincial Board and transferred its functions to the Ministry.

Four core businesses

The Ministry's 2005–2008 business plan identifies four core businesses:

- providing services, programs and planning for seniors and the aging population
- providing supports, services and planning for persons with disabilities
- supporting the provision and ongoing management of housing for lower-income Albertans

- providing supports to enhance choice and well-being for clients of the Ministry

Ministry received $275 million

The Ministry received $275 million in 2005–2006, $264 million of which came from transfers from the Government of Canada.

Ministry spent $1.8 billion

In 2005–2006, the Ministry spent $1.8 billion, primarily as follows:

	(millions of dollars)
Persons with disabilities	991
Seniors and the aging population	340
Housing and emergency shelter for lower-income Albertans	233
Providing supports to enhance choice and well-being for clients of the Ministry	173

For more information on the Ministry, visit its website at www.seniors.gov.ab.ca.

Scope: what we did in our audits

1. Systems

   We followed up on the Ministry's progress implementing our previous recommendation on monitoring performance of management organizations. We also followed up on our May 2005 report on Seniors Care and Programs.

2. Performance reporting

   We audited the financial statements of the Ministry, Department, and Alberta Social Housing Corporation for the year ended March 31, 2006.

   We completed specified auditing procedures on the performance measures in the Ministry's 2005–2006 annual report.

3. Other entities that report to the Minister

   We obtained a summary from the Persons with Developmental Disabilities Provincial Board and the six Community Boards on their progress in implementing our previous recommendations to improve contracting policies and procedures, strengthen monitoring and evaluation of service providers, and reduce the risk of contract breaches.

   We also audited the financial statements of the:
   - Persons with Developmental Disabilities Provincial Board
   - Persons with Developmental Disabilities Northwest Region Community Board

- Persons with Developmental Disabilities Northeast Region Community Board
- Persons with Developmental Disabilities Edmonton Region Community Board
- Persons with Developmental Disabilities Central Region Community Board
- Persons with Developmental Disabilities Calgary Region Community Board
- Persons with Developmental Disabilities South Region Community Board

4. Other audit

We audited the 2005–2006 cost-sharing claims under the National Housing Act (Canada).

Our audit findings and recommendations

1. Systems

1.1 Monitoring performance of management organizations—implemented

Background

In our *2002–2003 Annual Report* (No. 39—page 267), we recommended that the Ministry improve its systems for monitoring the performance of management organizations that deliver social housing programs for it.

Our audit findings

Recommendation implemented

The Ministry implemented this recommendation. Management improved its systems for monitoring management organizations. The Ministry monitors the performance of the management organizations and their compliance with the *Alberta Housing Act*, other legislation, and agreements. It does so by reviewing business plans, performing operational reviews, and assessing financial information the management organizations submit.

Risk assessment used

The Ministry developed and implemented a "Business Plan Checklist" to ensure the plans of management organizations comply with legislation. It uses a risk assessment to select management organizations for operational reviews. It also reviews financial information from management organizations and asks them to explain significant variances—based on reasonable thresholds.

1.2 Alberta Social Housing Corporation land sales systems—not assessed

In our October 2005 *Report on Alberta Social Housing Corporation Land Sales Systems*, we recommended that the Alberta Social Housing Corporation:

Progress not assessed

- work with the Ministries of Infrastructure and Transportation and Sustainable Resource Development and the Regional Municipality of Wood Buffalo to establish a long-term plan for selling land in Fort McMurray (No. 1—page 21).
- improve its system for selling land to ensure that it meets its objectives (No. 2—page 26).

We will assess progress on these recommendations and report these results in our *2006 2007 Annual Report*.

2. Performance reporting

2.1 Financial statements

Unqualified opinions

Our auditor's reports on the financial statements of the Ministry, Department and Alberta Social Housing Corporation are unqualified.

Non-compliance with legislation

Our auditor's report on the Ministry financial statements has an information paragraph reporting that expenses include payments by the six Persons with Developmental Disabilities Community Boards for services to individuals whose disability did not meet the legal definition of a developmental disability—see page 181.

2.2 Performance measures

We found one exception when we completed specified auditing procedures on the Ministry's performance measures. Data was not reported for the new measure titled, (*Eligibility Decision Time in Working Days for AISH Applications*). As a result, we were unable to complete our specified auditing procedures for this measure.

3. Other entities that report to the Minister

3.1 Systems

3.1.1 Persons with Developmental Disabilities Boards—contract management systems

3.1.1.1 Contract policies and monitoring—progress report

Background

In our *2003 2004 Annual Report*, we recommended that the Provincial Board work with the six Community Boards to update and improve their contracting policies and procedures (page 107), and strengthen the monitoring and evaluation of their service providers' performance (No. 9—page 111).

Last year, we reported that the Provincial Board and Community Boards had made satisfactory progress implementing the recommendations.

Effective July 1, 2006, the Province of Alberta dissolved the Provincial Board and transferred its functions to the Ministry.

Management actions

In 2005–2006, the Provincial Board and Community Boards:

New code and policies

- introduced a new code-of-conduct and conflict-of-interest policy for employees. Employees must comply with the new policy by March 2007.

Contract templates finalized

- finalized (Provincial Board) new contract templates, which include a dispute resolution clause and require service providers to give general purpose financial statements to the Community Boards. Under the new contracts, service providers must provide financial reporting on individual funding (IF) money they receive. IF service providers that do not receive any contract funding do not have to provide financial reporting.

$27 million in IF funding not covered by contracts

Community Boards are currently either amending existing contracts to incorporate the IF financial reporting clauses or using the new templates as current contracts expire. Community Boards' management estimates that they will provide a total of $277 million in contract funding and $139 million in IF funding in 2006–2007. Approximately $112 million of the IF funding will go to service providers that also receive contract funding and will be subject to the new financial reporting requirements.

We will examine the new funding agreements, policies, and manuals at the Ministry and report the results in our *2006–2007 Annual Report*. We will examine the implementation of the agreements and policies by the Community Boards and report the results in our *2007–2008 Annual Report*.

3.1.1.2 Service provider contract breaches—progress report

Background

In 2003–2004, we examined the contract practices of two service providers. In both cases, we found that the Community Boards were not regularly monitoring, reconciling, or recovering excess funding. As a result, we recommended that the Provincial Board, in conjunction with the six Community Boards, reduce the risk of service providers breaching contracts by:

- performing a risk assessment of service providers; and
- auditing high-risk service providers to ensure that they spend funding according to their contracts and meet other terms of their contracts.

In our *2004–2005 Annual Report*, we reported that the Provincial Board and Community Boards had made satisfactory progress implementing our recommendation. The Community Boards had done a risk assessment and reported on the results of 67 examinations that Corporate Internal Audit Services (CIAS—formerly, the Office of the Chief Internal Auditor) performed on Community Board service providers.

Management actions

In 2004–2005, Community Boards examined the $822,000 (11 service providers) in direct care service shortfalls (difference between funding received for direct care services and funds expended on direct care services) reported in the first round of internal audit examinations and dealt with them as follows:

$822,000 in direct care service shortfalls investigated

- recovered—$305,000 (3 service providers)
- in litigation—$155,000 (2 service providers)
- spent on legitimate PDD expenditures—$120,000 (3 service providers)
- unrecoverable—$36,000 (1 service provider)—the Community Board cancelled their contract with the service provider
- investigating legal options—$206,000 (2 service providers)

Audits conducted at 14 high-risk service providers

In 2005–2006, CIAS examined 14 of 32 high-risk service providers ($14.5 million in direct care spending) that it had not yet examined. At four of these service providers, funds spent on direct care did not vary significantly from contracted amounts. At the remaining 10 service providers, CIAS reported that direct care expenditures totalled $1,021,000 less than contracted amounts. Management of the Community Boards investigated these variances and dealt with them as follows:

- recovered—$70,000 (3 service providers)
- to be recovered in 2006–2007—$189,000 (1 service provider)
- investigating—$96,000 (3 service providers)
- spent on legitimate PDD expenditures—$666,000 (8 service providers)

18 identified high-risk service providers remained unexamined at the end of 2005–2006.

In addition, CIAS examined a large, high-risk service provider that operates across the province. The service provider received $18.8 million during the year of examination. The initial draft of the CIAS report indicates that funds spent on direct care were $2.2 million less than required by the service provider's contracts. Due to the size and complexity of this case, the Ministry is working with the Community Boards, CIAS, and its lawyers to decide how to proceed.

Long-term internal audit plan not completed

The Provincial Board did not complete a long-term internal audit plan due to a CIAS restructure during the year and uncertainty over resource availability. Effective April 1, 2006, CIAS transferred seven internal audit positions (only three of which are currently staffed) to the Provincial Board, and then to the Ministry on the dissolution of the Provincial Board. The new internal auditors have drafted a risk assessment framework, and management anticipates it will be the basis for a long-term, risk-based internal audit plan.

We will follow up on the status of this recommendation and report the results in our *2006–2007 Annual Report*.

3.2 Performance reporting

3.2.1 Financial statements

Unqualified opinion

The financial statements for the Persons with Developmental Disabilities Provincial Board and the six Community Boards received unqualified auditor's reports.

Non-compliance with legislation

Our auditor's reports on the financial statements of the six Community Boards have an information paragraph reporting that expenses include payments by the Community Boards for services to individuals whose disability did not meet the legal definition of a developmental disability. The Community Boards provided services to individuals—and funding to organizations—that fall outside of the parameters set by the *Persons with Developmental Disabilities Community Governance Act*.

4. Other audits—cost-sharing claims

Other financial information—cost-sharing claims

We issued unqualified auditor's opinions on the 2005–2006 cost-sharing claims under the *National Housing Act (Canada)*. We did these audits because the cost-sharing agreements require the claims to be audited.

Solicitor General and Ministry of Public Security

Summary: what we found in our audits

Systems

The Ministry has developed a system to assess compliance with provincial policing standards but still needs to monitor police services' compliance with the standards.

Performance reporting

We issued unqualified auditor's reports on the financial statements of the Ministry, the Department, and the Victims of Crime Fund. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Four core businesses

The Ministry's 2005–2008 business plan describes four core businesses:

- Policing, crime prevention and response to organized crime
- Custody, supervision and rehabilitative opportunities for offenders
- Security services
- Victims programs and services

Ministry received $43 million

Total revenue for the Ministry was $43 million in 2005–2006. The Ministry's main revenue sources are:

	(millions of dollars)
Transfers from the federal government primarily for cost-sharing agreements	21
Fine surcharges	21

Ministry spent $416 million

The total operating expenses for the Ministry were $416 million in 2005–2006, comprised mainly of:

	(millions of dollars)
Public security	237
Correctional services	146
Victims of crime	14

For more detail on the Ministry, visit its website at www.solgen.gov.ab.ca.

Scope: what we did in our audits

1. Systems

   We followed up on our *2002–2003 Annual Report* recommendation (No. 40), for the Department to implement the plan for provincial policing standards.

2. Performance reporting

   We audited the financial statements of the Ministry, the Department, and the Victims of Crime Fund for the year ended March 31, 2006. We completed specified auditing procedures on the Ministry's performance measures.

Our audit findings and recommendations

1. Systems

Provincial policing standards—satisfactory progress

Background

In our *2002–2003 Annual Report* (No. 40—page 272), we recommended that the Department implement the plan for provincial policing standards. This plan included developing policing standards and a process to monitor compliance of police services with the standards.

Our audit findings

Compliance assessment system developed

The Ministry has taken significant steps to implement this recommendation by hiring staff to assess compliance with the provincial policing standards and developing a system for assessing compliance. This system will provide consistency in assessing what is needed to show compliance with the standards and how the police services will do so.

The Ministry has trained the compliance coordinators for each police service and given them guidance on what will be needed to show compliance with the standards. The Ministry will first assess compliance with the motor vehicle pursuit standard by police services. The Ministry will use this first assessment as a training guide to familiarize police services with the administrative processes required to show compliance with the standards. Once this assessment is complete, the Ministry will assess compliance with other standards.

High-risk standards will be assessed first

The Ministry expects to assess the high-risk standards (those standards that the Ministry views as critical for public safety) for each police service by December 2006 and start assessing compliance with all other standards in the following year.

What remains

To finish implementing this recommendation, the Ministry must:

- assess compliance with the high-risk standards by Alberta police services, and
- develop processes to finish assessing compliance with all standards for all police services.

Sustainable Resource Development

Summary: what we found in our audits

Systems

Reforestation—see Volume 1, page 109.

Performance reporting

We issued unqualified auditor's reports on the Ministry, the Department and the Environmental Protection and Enhancement Fund financial statements. We found one exception when we completed specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

We issued an unqualified auditor's report on the Natural Resources Conservation Board financial statements.

Overview of the Ministry

Ministry entities

The Ministry of Sustainable Resource Development consists of the Department of Sustainable Resource Development, the Natural Resources Conservation Board, the Surface Rights Board, the Land Compensation Board and the Environmental Protection and Enhancement Fund. The Ministry has also delegated administration for certain legislative responsibilities to three delegated administrative organizations: the Alberta Conservation Association, the Forest Resource Improvement Association of Alberta, and the Alberta Professional Outfitters Society.

Three core businesses

The Ministry delivers three core businesses:

Wildfire management: protects the benefits received from forests, supports programs promoting responsible forest management and prevents and suppresses wildfires.

Natural resources and public land management: integrates planning and management practices to develop common goals for ecological systems that cross multiple stakeholders and demands.

Land, access and compensation boards:

- Natural Resources Conservation Board (NRCB)—conducts independent public reviews of major non-energy projects affecting Alberta's natural resources and regulates new or expanding confined feeding operations

- Surface Rights Board—conducts hearings when an operator and a landowner or an occupant fail to reach an agreement regarding entry or compensation related to resource activity on privately owned land or occupied public lands.
- Land Compensation Board—determines compensation when landowners' property is expropriated by a public authority

Ministry received $182 million

The Ministry received $182 million in 2005–2006. The largest source of revenue was:

	(millions of dollars)
Premiums, fees and licenses	154

Ministry spent $313 million

In 2005–2006, the Ministry spent $313 million on the following:

	(millions of dollars)
Wildfire management	161
Natural resources and public land management	130
Land, Access and Compensation Boards	9
Ministry support services and valuation adjustments	9
Environment statutory programs	4

For more details on the Ministry, visit its website at www3.gov.ab.ca/srd.

Scope: what we did in our audits

1. Systems
   We examined the Ministry's systems for reforestation—see Volume 1, page 109.

2. Performance reporting
   We audited the financial statements of the Ministry, the Department and the Environmental Protection and Enhancement Fund for the year ended March 31, 2005. We also completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to Minister
   We audited the financial statements of the Natural Resources Conservation Board for the year ended March 31, 2006.

Our audit findings and recommendations

1. Performance reporting

We issued unqualified auditor's reports on the financial statements of the Ministry, the Department and the Environmental Protection and Enhancement Fund. We found one exception when we completed specified auditing procedures on the Ministry's performance measures—The Ministry did not provide data for the Forest Sustainability (Reforestation rate in harvested areas) performance measure.

2. Other entities that report to the Minister

2.1 Performance reporting—Natural Resources Conservation Board

We issued an unqualified auditor's opinion on the financial statements of the Natural Resources Conservation Board for the year ended March 31, 2006.

2.1 Systems—Natural Resources Conservation Board

2.2.1 Confined feeding operations

At the date of this report our follow-up audit on recommendation No. 28 on page 294 of the *2003–2004 Annual Report* was in progress.

Members of the Legislative Assembly (MLAs) expense reimbursements

Systems

MLA expense reimbursements reviewed

In 2002, we examined the systems that produce the Report[1] on payments to MLAs and reimburse MLAs for expenses incurred in their work.

No evidence of inappropriate payments

We did not find any evidence of inappropriate MLA expense reimbursement and concluded that the systems would generally prevent inappropriate payments.

Two recommendations

However, in our *2002–2003 Annual Report* we recommended:

- that the Legislative Assembly Office strengthen its internal control systems for MLA expense reimbursement (page 290), and
- that the Minister of Finance improve the timeliness of the Report (page 290).

One was implemented

In our *2004–2005 Annual Report* (page 307), we concluded that our recommendation that the Legislative Assembly Office strengthen its internal controls for MLA expense reimbursement had been implemented. In 2005-2006, we followed up on our recommendation that the Minister of Finance improve the timeliness of the Report.

Our audit findings and recommendations

1. Timeliness of Report of payments to MLAs—implemented

Background

Recommendation repeated

In our *2003–2004 Annual Report* (page 309), we repeated our *2002–2003 Annual Report* recommendation that the Minister of Finance improve the timeliness of the annual report of payments to MLAs. The Ministry agreed to work with the Legislative Assembly Office to distribute—

[1] Under the *Legislative Assembly Act* (LAA), the Minister of Finance is required to publish an annual report detailing payments made to Members. Section 37 (4) of the LAA requires the report to include amounts paid by the government as fees and as travelling and living expenses to MLAs appointed to boards, commissions or committees. The report is combined with information required under Section 16 of the *Conflict of Interests Act* to produce the *Report of Selected Payments to Members and Former Members of the Legislative Assembly and Persons Directly Associated with Members of the Legislative Assembly* (the Report). The Ministry of Finance has also included information on remuneration to MLAs in this Report under Section 10(2)(e) of the *Government Accountability Act*. Our audit was concerned with only a portion of the Report, specifically, expense reimbursement.

approximately six months after the fiscal year-end—a draft Report to MLAs for review.

Our audit findings

Report detailing payments to MLAs tabled in November 2005

The Ministry of Finance implemented our recommendation by making the 2004–2005 Report available for MLA review in September 2005 and tabling the Report in the Legislature in November 2005. The November 2005 sitting of the Legislature was the first one where the Report could be tabled after the September 2005 review of the draft Report by MLAs.

Offices of the Legislative Assembly

Summary: what we found in our audits

Performance reporting

Financial statements

We audited the financial statements of all the Offices of the Legislative Assembly, except our own. A private sector firm of chartered accountants appointed by the Standing Committee on Legislative Offices audited our financial statements.

Unqualified auditor's reports

Our auditor's reports for all Offices' financial statements contained unqualified audit opinions for the year ended March 31, 2006.

Overview of the Offices of the Legislative Assembly

6 Offices of the Legislative Assembly

There are six Offices of the Legislative Assembly. They, and their expenses, are:

	(millions of dollars)
Legislative Assembly Office	39.9
Office of the Auditor General	17.8
Office of the Information and Privacy Commissioner	4.4
Office of the Ombudsman	2.2
Office of the Chief Electoral Officer	1.7
Office of the Ethics Commissioner	0.4

For more detail on the Legislative Assembly Office, visit its website at www.assembly.ab.ca. This website also contains links to the other five Offices of the Legislative Assembly.

Supplementary information

1. Work of the Office

The Auditor General audits the financial statements of every ministry, department, regulated fund, and provincial agency. These financial statement audits and auditing the performance measures cost $12 million in fiscal 2006. The remainder of our resources, $6 million, was used to perform systems audits to improve the use of public resources, as required by section 19(2)(d) and (e) of the *Auditor General Act*.

There are four sources that we use to identify potential audit work that could improve the use of public resources. These sources are:

- knowledge of public sector program objectives, risks, controls and accountability gathered over time and specifically to plan current financial statement audits
- information about transactions, assets and liabilities obtained while doing financial statement audits
- concerns expressed by MLAs, legislative committees and the public
- requests for assistance from management of the organizations we audit

We prioritize the potential issues to get to a manageable number of systems audits by considering whether our audit work would result in recommendations to improve the safety and welfare of Albertans, the security and use of the province's resources, or the governance and ethics with which government operations are managed.

We know we can be effective if we can persuade senior government managers to implement our recommendations; we also know that their receptiveness to our suggestions is influenced by their perception of our knowledge and experience and our understanding of their business. This is why we work with management to identify issues and recommend solutions before the issues become more serious problems.

Our follow-up work on recommendations from previous systems audits is an in-depth process because we reperform the audit testing to provide evidence that the standards (criteria) we used for our original audit are now fully met. We work with management to obtain plans and timetables for implementation of the recommendations they have accepted, keeping in mind the expectation that implementation should occur within three years.

2. Overview of the annual report

2.1 Guidance to readers

What the report does

This annual report describes:

- what the Alberta government and its ministries and other entities should do to improve their systems,
- the results of our financial statements audits of the government and its ministries and other entities, and
- the results of performing specified auditing procedures (see Glossary) on ministry performance measures.

Structure of the report

Volume 2 of this report has a chapter for each ministry. If we have recommendations for a ministry, its chapter has four parts:

- ***Summary*** highlights what a ministry must do to improve its systems.

- ***Overview*** briefly describes a ministry and its agencies, boards, and commissions.

- ***Scope*** explains the extent of our work in a ministry—auditing its financial statements and usually, examining some of its systems. We choose which systems to audit based on our assessment of how significant a system is and the risk that it may not meet certain criteria. The greater the significance and risk, the more likely it is that we'll audit a system—for more detail, see *Systems audit* in Glossary.

- ***Our audit findings and recommendations*** describes problems we found and solutions we recommend. We number what we consider to be our most important recommendations and require a response to them from the government.

If we have no recommendations for a ministry, the chapter is condensed.

The report also includes:

- a Cross-Ministry chapter applying to several ministries or the whole government—see Volume 1, page 163.
- a list of this year's recommendations—see Volume 1, page 13.
- a table of unimplemented recommendations over three years old—page 250.
- a chapter on the Government of Alberta annual report—see Volume 1, page 179.
- an index—page 261.

- a **Glossary** explaining specialized words and phrases we use in the report—page 255.

Report subsections

In each chapter, the part called *Our audit findings and recommendations* has a subsection for each topic (we sometimes combine shorter subsections). If we have a recommendation on a topic, the subsection normally has the following five subheadings:

1. *Recommendation*
2. *Background*
3. *Criteria: the standards we used for our audit*
4. *Our audit findings*
5. *Implications and risks if recommendation not implemented*

To understand how these subsections fit together, it helps to know how we do a systems audit—for more detail, see *Systems audit* in Glossary.

2.2 Compliance with the law

We are satisfied that the transactions and activities we examined in financial statement audits complied with relevant legislative requirements, apart from the instances of non-compliance described in this report. As auditors, we only test some transactions and activities, so we caution readers that it would be inappropriate to conclude that our testing would identify all transactions and activities that do not comply with the law.

Auditor General Act

Chapter A–46

Key sections

11 Auditor General as auditor
14 Access to information
14.1 Evidence under oath
16 Reliance on auditor
17 Special duties of Auditor General
18 Annual report on financial statements
19 Annual report of Auditor General
20 Special reports
20.1 Assembly not sitting
28 Report after examination
29 Advice on organization, systems, etc.

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Auditor General as auditor

11 The Auditor General

(a) is the auditor of every ministry, department, regulated fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12;1995 cG-5.5 s17; 2004 c2 s1(23)

Access to information

14(1) The Auditor General is at all reasonable times and for any purpose related to the exercise or performance of the Auditor General's powers and duties under this or any other Act entitled to access to the records of, and electronic data processing equipment owned or leased by

(a) a department, fund administrator or Provincial agency, or

(b) a Crown-controlled organization or other organization or body of which the Auditor General is the auditor.

(2) The following persons shall give to the Auditor General any information, records or explanations that the Auditor General considers necessary to enable the Auditor General to exercise or perform the Auditor General's powers and duties under this or any other Act:

(a) present or former public employees, public officials or personal service contractors;

(b) present or former employees, officers, directors or agents of a Crown-controlled organization or other organization or body of which the Auditor General is the auditor.

(3) The Auditor General may station any employee of the Office of the Auditor General in the offices of

(a) a department, fund administrator or Provincial agency, or

(b) a Crown-controlled organization or other organization or body of which the Auditor General is the auditor,

for the purpose of enabling the Auditor General to exercise or perform the Auditor General's powers and duties under this or any other Act more effectively, and the department, fund administrator, Provincial agency, Crown-controlled organization or other organization or body shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

RSA 1980 cA-49 s15; 2004 c15 s5

Evidence under oath

14.1**(1)** In conducting an audit or examination or performing any other duty or function under this or any other Act, the Auditor General may by a notice require any person

(a) to attend before the Auditor General to give evidence under oath with respect to any matter related to the audit, examination or other duty or function, and

(b) to produce any records respecting the matter referred to in the notice.

(2) If a person fails or refuses to comply with a notice under subsection (1), the Court of Queen's Bench, on the application of the Auditor General, may issue a bench warrant requiring the person to attend before the Auditor General in compliance with the notice.

(3) If a witness refuses

(a) to give evidence in compliance with a notice under subsection (1),

(b) to answer any questions before the Auditor General pursuant to the notice, or

(c) to produce any records referred to in the notice,

the Court of Queen's Bench, on the application of the Auditor General, may commit the witness for contempt.

(4) A person who is given a notice under subsection (1) shall not be excused from giving evidence or from producing records on the ground that the evidence or records might tend to incriminate the person or subject the person to a penalty or forfeiture.

(5) A witness who gives evidence or produces records pursuant to subsection (1) has the right not to have any incriminating evidence so given used to incriminate that witness in any other proceedings, except in a prosecution for or proceedings in respect of perjury or the giving of contradictory evidence.

2004 c15 s6

Reliance on auditor

16**(1)** In this section, "regional authority" means a board under the *School Act* or a regional health authority, subsidiary health corporation, community health council or provincial health board under the *Regional Health Authorities Act*.

(2) If the Auditor General is not the auditor of a regional authority, the person appointed as auditor

(a) must give the Auditor General, as soon as practicable after completing the audit of the regional authority, a copy of the person's findings and recommendations and a copy of the audited financial statements and all other audited information respecting the regional authority,

(b) may conduct such additional work at the direction and expense of the Auditor General as the Auditor General considers necessary, and

(c) must co-operate with the Auditor General when the Auditor General performs work for a report to the Legislative Assembly under section 19.

(3) A regional authority must give a person appointed as auditor of the regional authority any information the person requires for the purposes of subsection (2).

(4) If the Auditor General is not the auditor of a regional authority, the Auditor General may rely on the report and work of the person appointed as auditor.

1995 cG-5.5 s17

Special duties of Auditor General

17**(1)** The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of the Auditor General's powers and duties under this or any other Act.

(3) The Auditor General shall present any report prepared by the Auditor General under subsection (1) to the chair of the Select Standing Committee, who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(4) The Auditor General shall present any report prepared by the Auditor General under subsection (2) to the President of the Executive Council and afterwards the Auditor General may, on 3 days' notice to the Speaker of the Assembly, deliver copies of the report to the Speaker, who shall forthwith distribute the copies to the office of each Member of the Assembly.

(5) After the Speaker has distributed copies of the report under subsection (4), the Auditor General may make the report public.

(6) Despite subsection (4), if there is no Speaker or if the Speaker is absent from Alberta, the Auditor General may give the notice under subsection (4) to the Clerk of the Assembly, who shall comply with subsection (4) as if the Clerk were the Speaker.

RSA 1980 cA-49 s17; 2004 c15 s7

Annual report on financial statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in the Auditor General's opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles,

(b) when the report contains a reservation of opinion by the Auditor General, state the Auditor General's reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to the Auditor General's audit of the financial statements that the Auditor General considers appropriate.

RSA 1980 cA-49 s18;1995 c23 s3

Annual report of Auditor General

19**(1)** After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of the Office of the Auditor General, and

(b) on whether, in carrying on the work of that Office, the Auditor General received all the information, reports and explanations the Auditor General required.

(2) A report of the Auditor General under subsection (1) shall include the results of the Auditor General's examinations of the organizations of which the Auditor General is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which the Auditor General has observed that

(a) collections of public money

(i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts,

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements, or

(iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that the Auditor General considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which the Auditor General is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to the Auditor General's attention is adequately disclosed.

(b) include summarized information and the financial statements of an organization on which the Auditor General is reporting or summaries of those financial statements, and

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(4) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly on the results of the examinations of the regional authorities referred to in section 16.

(5) A report under this section shall be presented by the Auditor General to the chair of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(6) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in the Auditor General's opinion, have been or are being rectified.

RSA 1980 cA-49 s19;1995 cG-5.5 s17;1996 cA-27.01 s22

Special reports

20**(1)** The Auditor General may prepare a special report to the Assembly on any matter of importance or urgency that, in the Auditor General's opinion, should not be deferred until the presentation of the Auditor General's annual report under section 19.

(2) A report under this section must be presented by the Auditor General to the chair of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

RSA 1980 cA-49 s20

Assembly not sitting

20.1**(1)** When the Assembly is not sitting and the Auditor General considers it important that a report presented to the chair of the Select Standing Committee under section 17(3), 19(5) or 20(2) be made available to the Members of the Assembly and to the public, the Auditor General may, on 3 days' notice to the Speaker of the Assembly, deliver copies of the report to the Speaker, who shall forthwith distribute the copies to the office of each Member of the Assembly.

(2) After the Speaker has distributed copies of the report under subsection (1), the Auditor General may make the report public.

(3) Despite subsection (1), if there is no Speaker or if the Speaker is absent from Alberta, the Auditor General may give the notice under subsection (1) to the Clerk of the Assembly, who shall comply with subsection (1) as if the Clerk were the Speaker.

(4) Nothing in this section dispenses with the requirement of the chair of the Select Standing Committee to lay a report before the Assembly pursuant to section 17(3), 19(5) or 20(2).

2004 c15 s8

Report after examination

28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in the Auditor General's examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Minister of Finance of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Minister of Finance's powers and duties.

RSA 1980 cA-49 s28; 2004 c15 s9

Advice on organization, systems, etc.

29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which the Auditor General is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

RSA 1980 cA-49 s29

Committees and Agents

Standing Committee on Legislative Offices

Reports issued under section 19 of the *Auditor General Act* are tabled in the Legislative Assembly by the Chairman of the Standing Committee on Legislative Offices. Members of the Committee on August 31, 2006, the day the Assembly last adjourned were:

Janis Tarchuk, Chair
Laurie Blakeman
Doug Griffiths
Richard Magnus
Leonard Mitzel
Dave Rodney
Ivan Strang, Deputy Chair
Jack Flaherty
Rob Lougheed
Richard Marz
Raj Pannu

Public Accounts Committee

The Public Accounts Committee acts on behalf of the Members of the Assembly in examining the government's management and control of public resources. Our *Annual Report* and the ministry annual reports are used by the Committee in its examination of the use and control of public resources. The members are:

Hugh MacDonald, Chair
Tony Abbott
Bill Bonko
Harry Chase
David Eggen
Art Johnston
Ted Morton
Dave Rodney
Len Webber
Doug Griffiths, Deputy Chair
Laurie Blakeman
Neil Brown
Ray Danyluk
George Groeneveld
Fredrick Lindsay
Raymond Prins
George Rogers

Audit Committee

Before being tabled, annual reports are made available to an Audit Committee in accordance with section 24 of the Act. The members of the Audit Committee as at the date of this report, all of whom were appointed by Order in Council, are:

George Cornish, Chair
Don Wilson
John Watson
Ted Allen
The Hon. Shirley McClellan
Terry Gomke
Tracey Ball

Agents

The Auditor General's Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as our agent under section 9 of the *Auditor General Act*, and their contributions in supplementing the staff resources of the Auditor General's Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 2006, were as follows:

BDO Dunwoody LLP
Collins Barrow Edmonton LLP
Deloitte & Touche LLP
Ernst & Young LLP
Hawkings Epp Dumont LLP
Johnston, Morrison, Hunter & Co. LLP
King & Company
KPMG LLP
Meyers Norris Penny LLP
PricewaterhouseCoopers LLP
Stout & Company
Young Parkyn McNab LLP

Results Analysis

March 31, 2006

Highlights

We had a successful year, carrying out the projects included in our audit plans. In addition to completing our assurance audits on time, we concluded several large systems audits. The largest ones focused on food safety, reforestation, regional health authority funding, school board budgeting, the Alberta Social Housing Corporation's land sale systems, and the Alberta Securities Commission's enforcement system.

This year, our main challenges involved recruiting and retaining professional auditors in the heated Alberta economy. The accounting and auditing profession continues to experience shortages and the costs of auditing services continue to escalate. Given these pressures, we must continue to focus on managing our workloads and obtaining the necessary expertise at a reasonable cost—to complete the broad range of our work. We will continue to aggressively recruit, train and promote from within.

Mission

"To identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting, to Albertans."

Under the *Auditor General Act*, the Auditor General and the staff of the Office of the Auditor General (OAG) fulfil the Auditor General's statutory duties.

The OAG provides independent reporting on government's management of, and accountability practices for, the public resources entrusted to it.

This mission is fulfilled objectively because both the Auditor General and his Office:

- are independent of government
- have a working knowledge of government structures and information systems, relevant legislation, and the risks and issues facing government
- are familiar with and adhere to accounting and standards recommended by the Canadian Institute of Chartered Accountants
- possess a wealth of practical experience

Core Businesses

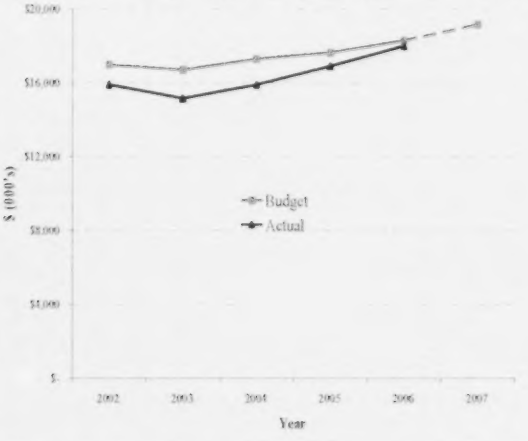
The OAG operates two separate but complementary core businesses.

1. Assurance auditing
   Assurance audits confirm that the performance reports of government organizations are credible. We provide opinions on whether the consolidated financial statements of the Province, and the financial statements of the ministries, departments, funds and Provincial agencies, are presented fairly in accordance with applicable standards. We also examine transactions for compliance with legislation. In addition, we examine and report on the non-financial performance measures that government organizations include in their annual reports.

2. Systems auditing
   Systems audits examine financial and management control systems of government organizations to identify opportunities for improvements. These are the systems used by government organizations to manage the risks of not achieving their objectives with regard to economy, efficiency and to measure the effectiveness of their programs.

Office Performance

Figure 1: Budgets Approved by the Legislative Assembly



Our operations are funded by an annual appropriation from the Legislative Assembly. For 2005–2006 the funding approved was $18,139,000 for operating purposes, and $165,000 for capital purposes.

The Office is returning $303,000 to the Legislative Assembly for the 2005–2006 fiscal year. This unspent portion of our budget arises mainly from a reduction in agent costs intended for Systems projects.

Figure 1 shows our approved budgets and actual spending over the last five years.

Overall Comparison to Budget

Schedule 1 of the Office's 2005–2006 financial statements summarizes the costs by ministry for assurance and systems audits. The costs relate to the fiscal year ended March 31, 2006 and therefore the results of a significant portion of the corresponding audit work were reported in the *2004–2005 Annual Report of the Auditor General*, the *Report on Alberta Social Housing Corporation – Land Sales Systems (October 2005)* and the *Report on Alberta Securities Commission's Enforcement System (October 2005)*.

In 2005–2006, we met our overall assurance audit budget. Our systems audit costs were less than budget by 5% or $300,000, mainly because we deferred or cancelled certain projects when ministries were not ready or due to a lack of available experienced resources.

While there was little overall cost variance for our systems audits, there were significant variances at the individual ministry level. Specifically, within the ministries of Agriculture, Food and Rural Development and Finance, costs exceeded their budgets. The majority of the cost increases relate to the Food Safety audit and the additional work we did in Finance to complete our report on the Alberta Securities Commission's enforcement system. Conversely, within the ministries of Environment, Government Services, and Seniors, the systems audit costs were significantly under budget. Most of the variances for these ministries can be attributed to a shift in the timing of some audit work until the ensuing fiscal year. These decisions were necessary because of a shortage of experienced OAG and agent staff, or because the ministries were not ready.

Actuals to Prior Year

Overall, actual total costs increased by $1.4 million or 8% over last year. The majority of the increase relates to the salary rate increase described below under Personnel Costs. At the individual ministry level, we had some offsetting variances because the government's 2004–2005 reorganization impacted where audit costs were reported from one year to the next.

Operating Variances

Personnel Costs

Personnel costs approximate 90% of our current operating expenses. These comprise salaries and wages for OAG staff, employer benefit program contributions, agent fees, temporary audit services, general advisory fees, and miscellaneous human resources related expenses.

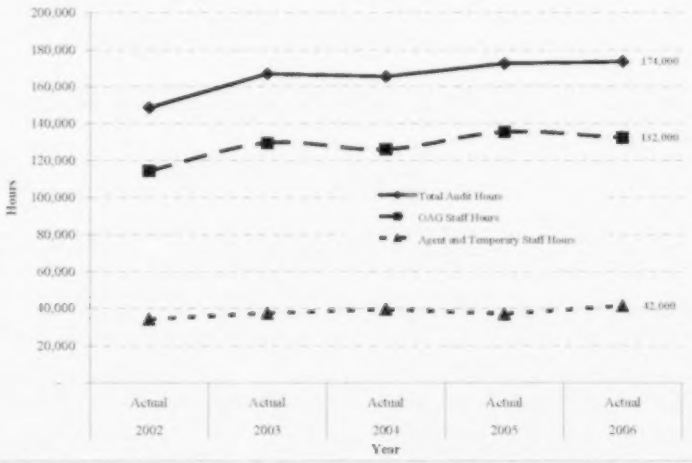
Salaries, wages, and employer contributions

We budgeted for 131 full-time equivalent positions (FTEs) in 2005–2006. Due to staff turnover, we averaged approximately 122 FTEs throughout the year. This reduced our salaries and wage costs by $684,000 or 7%. This was partially offset by a $275,000 or 3% increase as a result of salary adjustments to our 59 management positions (other than the Auditor General) similar to the structural adjustments made across government.

Compared to 2004–2005, we maintained the same number of FTEs, with a 5% increase in average salary rates. Effective July 1, 2005, the government increased the premium rates for the Management Employees Pension Plan and the Supplementary Retirement Plan by 5% and 1% respectively. The rise in premiums and salary base, coupled with an increase in the number of management employees participating in the plans, resulted in a 35% or $210,000 increase in our contributions over last year. (See note 4 in our financial statements.)

The key forces that shape our work are keeping pace with the changes in our audit environment and responding to stakeholder expectations. As per Figure 2, the total audit hours have not changed significantly since the prior year and we anticipate they will continue at the same level next year. To meet these demands efficiently, we will continue to focus on recruiting and training our own staff. We have therefore budgeted 131 FTEs for 2006–2007.

Figure 2: Hours by Resouce Type



Agent and other professional services

In the past year, 14 public accounting firms in Edmonton, Calgary, Fort McMurray, Grand Prairie, Lethbridge, Peace River, Red Deer, and other centres across the Province assisted us as agents of our Office. When using agents, OAG staff continue to oversee the audit work, but our office gains an additional skilled resource to meet peak work demands, acquires cost-effective specialist skills, gains a point of reference for comparing our methodology and costs, and saves on travel costs.

In 2005–2006, actual agent fees amounted to $3.7 million, similar to 2004–2005 but below budget by $502,000 or 12%. This budget variance resulted from:

- Decisions to postpone certain projects due to ministries not being ready or a lack of available suitable agent resources
- Refinements to original agent budget estimates as lower hourly rates were negotiated by engaging more small to mid-sized local and regional firms

The market price for obtaining agent resources from accounting firms remains very high (approximately 30% more than our internal rates). Therefore we budgeted a comparable total of $4 million in 2006–2007 for agent fees.

Temporary staff services

The Office contracts with public accounting firms to obtain qualified auditors during our peak work periods. In 2005–2006, the cost of such services exceeded the budget by $502,000 or 62% and also exceeded the prior year's spending by $292,000 or 28%. The budget overrun related to an unanticipated need to fill 5,500 audit hours using temporary staff services because of our internal staff departures, medical/maternity leaves and a significant number of students taking leave to write their professional exams.

We were successful in keeping the hourly temporary staff rates consistent to the prior year by contracting more with small to mid-sized local firms. Due to the market demand for accountants and the challenges to obtain and retain staff, we will continue to use temporary staff to fill vacancies while carefully managing the costs. As such, we have budgeted for a comparable level of spending on temporary staff services for 2006–2007.

Advisory services

Advisory services include fees related to communications, legal counsel, information systems, and professional practices. In 2005-2006, overall advisory services, with the exception of legal counsel, were lower than budget by $129,000 or 36% due to lower than anticipated demand. Legal counsel fees more than doubled our whole year's legal budget of $50,000, as we incurred $110,000 in legal costs relating to the legal challenge by the Alberta Securities Commission (ASC) to our audit of their enforcement systems. For this same reason, overall advisory services were higher than last year by $67,000 or 40%.

Supplies and Services Expenses

In the Supplies and Services category, our Office was over budget by $106,000 or 5%. Travel expenses were higher than anticipated due to longer than anticipated duration of audit trips thus higher lodging costs, and additional travel required for the ASC enforcement and the Food Safety systems audits. Also, costs were slightly higher for technology related items, such as software and licenses.

Supplies and services costs increased by $232,000 or 12% since 2004–2005 due to a combination of the following:

- increase in travel volume
- increase in the capital asset threshold from $2,500 to $5,000 (impact of approximately $29,000)
- increasing the rate of amortization of computer software from 20% to 33% (impact of approximately $18,000)

Capital Investment

In 2005–2006, our capital budget was invested in technology including network security hardware, computer servers, and video conferencing equipment. Our actual spending was $157,000, just below our budget of $165,000.

In 2006–2007 we plan to replace portions of our computer hardware with a capital budget of $120,000.

Other Performance Information

Schedule 2 of our 2005–2006 audited financial statements includes our performance measures for the period April 1, 2005 to March 31, 2006. The OAG monitors its performance throughout the fiscal year through these measures, as well as at year end. As part of our upcoming business planning process for 2007–2010, we intend to review and potentially revise the performance measures that we report.

Issuance of Reports

We issued our reports on the 2004–2005 consolidated financial statements of the Province and on the 2004–2005 Measuring Up results (performance measures for the Province) on target in June 2005. We also met our target of releasing 90% of the auditor's reports for consolidated entities with March 31st year ends by July 15th. Starting this year, we raised our target for non-consolidated entities from 70% to 80%. Although our actual results improved from the previous year's 71% to 75%, we fell just short of the new target. However, the majority of the audits in this category are mid-sized and when minor audits (those less than 150 hours) are excluded from the count, the results improve significantly to 84%.

All but three of our reports on ministry performance measures were issued on or before the target date of September 15, 2005, but we did not meet our target of 100%. We will continue to work with the ministries to ensure the reporting deadlines are met in the future.

Budgets

Two of our measures indicate the percentage of assurance and systems audit projects completed within their original budgets (see measures 1.f & 2.d). The 2005–2006 results show that we were short of our new target of 80% for the number of assurance projects over 200 hours completed within 10% of the budgeted costs. Of the 203 audits we do that are over 200 hours, 124 or 61% were under or within 10% of the budget. In general, assurance project budgets were exceeded due to staff turnover, especially at the manager level during peak audit season, unanticipated audit work, and additional time spent providing on-the-job training to our many new student recruits.

At 54%, we were also short of our target of 70% for systems audits completed within budget. The variances were primarily due to reliably estimating during the planning stage the extent of time required to complete the systems audits. These budgets are challenging to prepare as the extent of work required depends largely on the number and type of issues that may be encountered during the audit. We will continue to refine our budgeting process by incorporating prior experiences and gathering as much information as possible at the planning stage.

These two measures, while useful from a project management perspective, do not necessarily demonstrate audit quality or effectiveness. For example, an audit may uncover significant issues that require additional time to investigate and then to report to management. Although this would result in a negative budget variance, the end product is a high quality, valuable audit. It is for this reason that we are reviewing the relevance of these two measures as indicators of Office performance.

The other two measures in the Budgets category of Schedule 2 compare the relative total office costs attributable to assurance versus systems audits (see measures 1.g & 2.e). In 2005–2006, we met our targets by dedicating 69% of total costs to assurance audits and 31% to systems audits.

Recommendations

Regarding the *2004–2005 Annual Report of the Auditor General*, we met our target as 96% (47 of 49) of our primary recommendations were accepted by the government.

We did not meet our target of zero for the number of Auditor General's primary recommendations unimplemented within three years of acceptance. As reported in our 2004–2005 annual report, the government had not yet implemented 20 of our primary recommendations raised prior to 2001-2002. They were making satisfactory progress on 17 of the 20, and unsatisfactory progress on the remaining 3. The ministries concerned had not rejected these recommendations; rather, progress in implementation was slower than originally anticipated. The status of these 20 recommendations can be found on page 317 of the *2004–2005 Annual Report of the Auditor General*. Page 250 of this *2005–2006 Annual Report of the Auditor General* indicates that 24 issues raised prior to 2002–2003 have not yet been implemented. For 21 recommendations, management has made satisfactory progress and for 3 management has made unsatisfactory progress in implementing the recommendations.

We met our target of releasing the Auditor General's Annual Report in October 2005 and October 2006.

Corporate Initiatives

We conduct staff satisfaction surveys every two years; the latest one was completed in 2005–2006 with results that fell just short of our 80% target for overall satisfaction. We recognize the importance of staff morale and we will continue with initiatives to improve the overall working environment of the Office. For example, we will focus on increasing communication across the Office, ensuring workloads are fair and reasonable, and that compensation is competitive.

We did not meet our target of 100% for staff meeting their goals for available time spent on core business functions. This year, 88% of individuals spent all of their available time on assurance audits, systems audits and core business functions. The employees that did not make their targets are working with their career advisors to ensure they receive the appropriate challenges and are fully utilized throughout the year.

We strive to ensure our corporate service functions operate at an efficient level. These functions include: human resource management; training and development; information technology; and accounting and administration. This year, we met our target of 20% by keeping corporate costs at 16% of total Office costs.

For the Future

2005–2006 was both a challenging and successful year. We believe next year will continue to present similar challenges and new opportunities. As part of our 2006–2009 Business Plan, we established the following strategic priorities:

- Enhancing our organizational capacity—our capacity to respond to changes in our environment, as well as meet the expectations of our stakeholders and our business plan goals, is dependent upon our success in attracting, growing and retaining high quality employees. Over the last three years, we have increased our student recruiting considerably, resulting in more and more CA exam writers (5 in 2003; 8 in 2004; 17 in 2005; expect 15 in 2006). Training and mentoring staff will continue to be a high priority for us, as will ensuring we have the right skills to produce timely, high quality and relevant products. In planning our work, we will optimize on-the-job learning experiences for all our employees.

- Optimizing resource allocations to achieve our goals—ensuring the right mix of technical knowledge and expertise to provide high quality audits will continue to be a priority. Matching the allocation of our staff to audit risk is key to our cost-effectiveness. Being efficient in what we do enables us to meet demands for assurance work on the government's financial statements and performance measures. It also means that we can dedicate sufficient resources to our systems audits and provide recommendations for improved cost-effectiveness. We will focus our resources on making systems audit recommendations that result in improved: safety and welfare of Albertans (eg. quality of water, and services targeted to seniors and children); security and use of the province's resources (eg. reforestation, capital budgeting); board and oversight committee governance and ethical behaviour.

- Positioning our Office to respond to new governance and professional standards - reviewing and improving our audit practices and our internal systems of quality control will continue to be a priority, as will continued compliance with professional accounting and auditing standards, especially regarding the new quality control standards for audit offices. We will place a priority on working with management, boards and audit committees of the entities we audit, to encourage improved governance practices.

Alberta Legislature
Office of the Auditor General
Management's Responsibility for Financial Reporting

The accompanying financial statements of the Office of the Auditor General are the responsibility of the management of the Office.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances in order to ensure that the financial statements are presented fairly in all material respects.

The Office of the Auditor General maintains control systems designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the relevance and reliability of internal and external reporting, and compliance with authorities. The costs of control are balanced against the benefits, including the risks that the control is designed to manage.

The financial statements have been audited by Kingston Ross Pasnak LLP, Chartered Accountants, on behalf of the members of the Legislative Assembly.

[Original signed by Fred J. Dunn, FCA]
Fred J. Dunn, FCA
Auditor General
May 29, 2006

Alberta Legislature
Office of the Auditor General
Financial Statements
March 31, 2006

Auditors' Report

Statement of Financial Position

Statement of Operations

Statement of Cash Flows

Notes to the Financial Statements

Schedule 1: Output Costs by Ministry

Schedule 2: Other Performance Information

KRP LLP
KINGSTON ROSS PASNAK

AUDITORS' REPORT

May 29, 2006
Edmonton, Alberta

To the Members of the Legislative Assembly:

We have audited the statement of financial position of the Office of the Auditor General as at March 31, 2006 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for public sector entities.

[Original signed by Kingston Ross Pasnak LLP]

Kingston Ross Pasnak LLP
Chartered Accountants

Alberta Legislature
Office of the Auditor General
Statement of Financial Position
As at March 31, 2006

	2006	2005
Assets		
Audit fees receivable	$ 1,315,850	$ 1,184,690
Other receivables and prepaids	122,945	52,079
Capital assets (Note 3)	355,855	519,467
	$ 1,794,650	$ 1,756,236
Liabilities		
Accounts payable	$ 1,104,694	$ 1,093,161
Accrued vacation pay	1,085,328	992,232
	2,190,022	2,085,393
Net Assets (Liabilities)		
Net liabilities at beginning of year	(329,157)	(376,542)
Net cost of operations	(15,212,853)	(14,008,609)
Net transfer from general revenues	15,146,638	14,055,994
	(395,372)	(329,157)
	$ 1,794,650	$ 1,756,236

The accompanying notes and schedules are part of these financial statements.

Alberta Legislature
Office of the Auditor General
Statement of Operations
Year Ended March 31, 2006

	2006		2005
	Budget	**Actual**	**Actual**
	(Note 5)		
Personnel			
Salaries and wages (Note 7)	$ 9,200,000	$ 8,790,335	$ 8,404,994
Agent and other audit services fees	4,250,000	3,747,528	3,718,129
Employer contributions	1,440,000	1,459,636	1,220,556
Temporary staff services	815,000	1,316,621	1,024,788
Advisory services	360,000	231,794	165,018
Miscellaneous	6,000	124,585	12,088
	16,071,000	15,670,499	14,545,573
Supplies and services:			
Professional fees, training and development	770,000	607,382	612,013
Technology services	406,000	437,601	385,319
Amortization of capital assets	299,000	316,772	263,809
Travel	281,000	441,618	372,089
Materials and supplies	132,000	153,185	121,903
Telephone and communications	71,000	70,465	71,995
Rental of office equipment	65,000	87,877	72,774
Repairs and maintenance	11,000	20,910	13,617
Miscellaneous	33,000	38,051	28,458
	2,068,000	2,173,861	1,941,977
Total office professional services	$ 18,139,000	17,844,360	16,487,550
Audit fee revenue		(2,631,507)	(2,478,941)
Net cost of operations for the year (Note 6)		$ 15,212,853	$ 14,008,609

The accompanying notes and schedules are part of these financial statements.

Alberta Legislature
Office of the Auditor General
Statement of Cash Flows
Year Ended March 31, 2006

	2006	2005
Operating transactions:		
Net cost of operations	$ (15,212,853)	$ (14,008,609)
Non-cash transactions:		
Amortization of capital assets	316,772	263,809
	(14,896,081)	(13,744,800)
Increase in audit fees receivable	(131,160)	(185,279)
Decrease (increase) in other receivables and advances	(70,866)	34,998
Increase in accounts payable	11,533	89,948
Increase in accrued vacation pay	93,096	171,677
Net cash used by operating transactions	(14,993,478)	(13,633,456)
Capital transactions:		
Acquisition of capital assets	(156,871)	(422,538)
Disposal of capital assets	3,711	-
Net cash used by capital transactions	(153,160)	(422,538)
Financing transactions:		
Net transfer from general revenues	15,146,638	14,055,994
Net cash provided (used)	-	-
Cash, beginning of year	-	-
Cash, end of year	$ -	$ -

The accompanying notes and schedules are part of these finanacial statements.

Alberta Legislature
Office of the Auditor General
Notes to the Financial Statements
Year Ended March 31, 2006

Note 1 Authority and Purpose

The Auditor General is an officer of the Legislature operating under the authority of the *Auditor General Act, Chapter A-46, Revised Statutes of Alberta 2000*. General revenues of the Province of Alberta fund both the net cost of operations of the Office of the Auditor General and the purchase of capital assets. The Select Standing Committee on Legislative Offices reviews the Office's annual operating and capital budgets.

The Office of the Auditor General exists to serve the Legislative Assembly and the people of Alberta. The Auditor General is the auditor of all government ministries, departments, funds, and Provincial agencies, including regional health authorities, universities, public colleges, and technical institutes. With the approval of the Assembly's Select Standing Committee on Legislative Offices, the Auditor General may also be appointed auditor of a Crown controlled corporation or another organization. The results of the Office's work are reported in the Annual Report of the Auditor General presented to the Legislative Assembly. The *2004–2005 Annual Report of the Auditor General* was released in the 2006 fiscal year covered by these financial statements.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for public sector entities and reflect the following policies and practices:

(a) Audit fees

Audit fee revenue is recognized when billable assurance audits are performed. Audit fees are charged to organizations that are funded primarily from sources other than Provincial general revenues, and to regional health authorities audited with the approval of the Select Standing Committee on Legislative Offices. The fees billed to the regional health authorities only recover the fees charged to the Office by agents.

(b) Output costs

Schedule 1 provides detailed costs for two types of output:

- Assurance auditing results in auditor's reports on financial statements and on performance measures.
- Systems auditing is undertaken to produce recommendations for improved government management of and accountability for public resources in the Auditor General's Annual Report to the Legislative Assembly.

(c) Expenses incurred by others

Services contributed by other entities in support of the Office's operations are disclosed in Note 6.

(d) Capital assets

Capital assets are recorded at cost. Amortization is calculated on a straight-line basis, over the estimated useful lives of the assets, at the following rates:

Computer hardware	33%
Computer software	33%
Office equipment	10%

Effective April 1, 2005, the Office increased the threshold for capitalization from the previous $2,500 to $5,000 and decreased the estimated useful life of computer software from the previous five years to three years. The effect of these changes has been to increase the net cost of operations for the current year and the net liabilities at March 31, 2006 by $46,898.

(e) Pension expense

Pension costs included as part of these statements refer to employer contributions for the current service of employees during the year and additional employer contributions for service relating to prior years.

(f) Valuation of financial assets and liabilities

The amounts reported as audit fees receivable, other receivables and advances, accounts payable and accrued vacation pay approximate their fair values.

Note 3 Capital Assets

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	$ 1,249,886	$ 1,010,704	$ 239,182	$ 285,492
Computer software	289,508	287,808	1,700	45,953
Office equipment	730,491	615,518	114,973	188,022
	$ 2,269,885	$ 1,914,030	$ 355,855	$ 519,467

Note 4 Defined Benefit Plans

The Office participates in the multi-employer pension plans: Management Employees Pension Plan and Public Service Pension Plan. The Office also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $801,667 for the year ended March 31, 2006 (2005: $590,421).

At December 31, 2005, the Management Employees Pension Plan reported a deficiency of $165,895,000 (2004: $268,101,000) and the Public Service Pension Plan reported a deficiency of $187,704,000 (2004: $450,068,000). At December 31, 2005, the Supplementary Retirement Plan for Public Service Managers had a surplus of $10,018,000 (2004: $9,404,000).

The Office also participates in a multi-employer Long Term Disability Income Continuance Plan. At March 31, 2006, the Management, Opted Out and Excluded Plan reported an actuarial surplus of $8,311,000 (2005: $3,208,000). The expense for this Plan is limited to the annual contributions for the year.

Note 5 Budget

The budget shown on the statement of operations is based on the budgeted expenses reviewed by the Select Standing Committee on Legislative Offices on March 22, 2005.

Note 6 Expenses Incurred by Others

The Office had the following transactions with other entities for which no consideration was exchanged. The amounts for these transactions are estimated based on the costs incurred by the service provider to provide the service.

	2006	2005
Expenses incurred by Alberta Infrastructure and Transportation		
Accommodation	$ 503,245	$ 506,496
Amortization of leasehold improvements	5,820	5,820
	$ 509,065	$ 512,316
Expense incurred by the Legislative Assembly's Office		
Audit fee	$ 20,250	$ 20,000

Note 7 Salaries and Benefits

Salaries and benefits of the Auditor General and his five Assistants comprise:

	2006				2005
	Base Salary[1]	Other Cash Benefits[2]	Other Non-cash Benefits[3]	Total	Total
Auditor General[4]	$ 179,537	$ 3,137	$ 36,444	$ 219,118	$ 204,760
Assistant Auditor General[5]	156,003	20,000	33,346	209,349	189,068
Assistant Auditor General[6]	156,003	25,069	36,721	217,793	193,896
Assistant Auditor General[7]	134,984	16,000	32,347	183,331	155,841
Assistant Auditor General[8]	134,984	16,000	33,037	184,021	158,839
Assistant Auditor General[9]	116,628	43,358	5,995	165,981	167,037
	$ 878,139	$ 123,564	$ 177,890	$ 1,179,593	$ 1,069,441

(1) Base salary comprises pensionable base pay.

(2) Other cash benefits include bonuses, vacation payments, and any payments to contract personnel in lieu of employer contributions towards employee non-cash benefits. Accumulated vacation of $12,069 was paid to the Assistant Auditor General(9) (2005: $9,347) and $40,733 was paid out to the Assistant Auditor General(9).

(3) Other non-cash benefits include the Office's share of all employee benefits, and contributions or payments made on behalf of employees, including pension, health care, dental coverage, group life insurance, short and long-term disability plans, WCB premiums, professional memberships and tuition.

(4) Automobile provided, no dollar amount included in benefits and allowances

Portfolio responsibilities as at March 31, 2006:

(5) Responsibilities—Finance, Health & Wellness

(6) Responsibilities—Cross-Government Issues, Education, Environment, Finance, Gaming, Innovation & Science, Restructuring and Government Efficiency, Sustainable Resource Development

(7) Responsibilities—Agriculture, Food & Rural Development, Community Development, Cross-Government Issues, Executive Council, Human Resources and Employment, Justice and Attorney General, Seniors and Community Supports, Solicitor General

(8) Responsibilities—Aboriginal Affairs & Northern Development, Children's Services, Economic Development, Energy, Government Services, Infrastructure and Transportation, International and Intergovernmental Relations, Legislative Assembly, Municipal Affairs

(9) Position was occupied for nine months until the Assistant Auditor General retired on December 31, 2005. He continues under contract to be responsible for Advanced Education.

Note 8 Comparative Figures

Certain 2005 figures have been reclassified to conform to the 2006 presentation.

Note 9 Approval of the Financial Statements

These financial statements were approved by the Auditor General.

Schedule 1

Alberta Legislature
Office of the Auditor General
Schedule of Output Costs by Ministry
For the Year Ended March 31, 2006

	2006 Budget			2006 Actuals			2005 Actuals		
	Assurance Auditing	Systems Auditing	Total	Assurance Auditing	Systems Auditing	Total	Assurance Auditing	Systems Auditing	Total
Work performed by Sector:									
Aboriginal Affairs and Northern Development	$ 56,000	$ -	$ 56,000	$ 48,980	$ -	$ 48,980	$ 55,063	$ -	$ 55,063
Advanced Education	2,776,000	664,000	3,440,000	2,551,860	506,409	3,058,269	2,815,400	462,252	3,277,653
Agriculture, Food and Rural Development	348,000	172,000	520,000	357,744	456,472	814,216	334,355	658,602	992,957
Children's Services	820,000	289,000	1,109,000	730,225	138,509	868,734	635,110	153,739	788,849
Community Development	271,000	15,000	286,000	202,814	77,337	280,151	325,097	15,780	340,877
Cross-Government Issues	77,000	1,249,000	1,326,000	140,561	1,349,314	1,489,875	175,038	1,205,744	1,380,782
Economic Development	125,000	11,000	136,000	64,193	71,737	135,930	68,938	35,865	104,803
Education	204,000	335,000	539,000	328,801	336,622	665,423	163,076	50,481	213,557
Energy	383,000	100,000	483,000	387,891	83,921	471,812	302,335	117,236	419,572
Environment	73,000	521,000	594,000	102,511	189,372	291,883	89,076	33,413	122,489
Executive Council	54,000	15,000	69,000	62,882	16,202	79,084	53,290	2,860	56,151
Finance	2,152,000	271,000	2,423,000	2,233,783	663,933	2,897,716	1,938,553	227,568	2,166,121
Gaming	216,000	61,000	277,000	261,457	69,276	330,733	216,182	68,039	284,221
Government Services	109,000	375,000	484,000	107,647	49,202	156,849	126,643	35,695	162,338
Health and Wellness	1,383,000	488,000	1,871,000	1,555,493	314,717	1,870,210	1,380,340	916,894	2,297,233
Human Resources and Employment	502,000	51,000	553,000	469,077	31,158	500,235	477,711	54,729	532,440
Infrastructure and Transportation	435,000	326,000	761,000	474,408	291,238	765,646	466,884	341,811	808,695
Innovation and Science	358,000	18,000	376,000	321,360	12,678	334,038	318,842	37,559	356,401
International and Intergovernmental	51,000	1,000	52,000	47,484	2,071	49,555	36,993	1,171	38,164
Justice and Attorney General	204,000	29,000	233,000	203,963	40,214	244,177	205,893	41,817	247,709
Legislative Assembly	72,000	18,000	90,000	78,963	6,343	85,306	52,164	19,488	71,653
Municipal Affairs	344,000	82,000	426,000	272,220	103,116	375,336	262,685	78,640	341,325
Restructuring and Government Efficiency	469,000	104,000	573,000	475,880	79,438	555,318	355,320	94,033	449,352
Seniors and Community Supports	528,000	398,000	926,000	595,211	249,630	844,841	307,891	363,456	671,346
Solicitor General	93,000	35,000	128,000	90,135	63,082	153,217	57,777	30,500	88,276
Sustainable Resource Development	207,000	201,000	408,000	156,790	320,036	476,826	148,589	70,933	219,523
	$ 12,310,000	$ 5,829,000	$ 18,139,000	$ 12,322,333	$ 5,522,027	$ 17,844,360	$ 11,369,244	$ 5,118,306	$ 16,487,550

Schedule 2

Alberta Legislature
Office of the Auditor General
Other Performance Information

GOAL ONE 1 **Independent audits that confirm the reliability and relevance of financial and non-financial performance reporting to the Legislative Assembly**

Performance measures		Target 2005-06	Actual 2005-06	Actual 2004-05
Issuance of Reports				
1.a	Issue our auditor's report on the consolidated financial statements of the Province by June 30th each year.[1]	June 30 2005	**June 20 2005**	June 22 2004
1.b	Issue our specified auditing procedures report on the Government of Alberta's performance information contained in Measuring Up by June 30th each year.[1]	June 30 2005	**June 20 2005**	June 22 2004
1.c	The percentage of auditor's reports on financial statements for consolidated entities with March 31st year ends that we issue by July 15th each year.	90%	**96%**	61%
1.d	The percentage of auditor's reports for non-consolidated entities that we issue within 120 days of the entity's year end.	80%	**75%**	71%
1.e	The percentage of specified auditing procedures reports on ministry performance information that we issue by September 15th each year.	100%	**86%**	91%
Budgets				
1.f	The percentage of assurance auditing projects over 200 hours completed within 10% of budgeted costs.[2]	80%	**61%**	79%
1.g	The percentage of costs dedicated to assurance auditing.	< 70%	**69%**	69%

[1] Required by June 30th each year per s. 10 of the Government Accountability Act.
[2] Methodology improved to compare the full cost of the audit projects to their full budgets. 2004–2005 actuals were restated from 71% to 79% as a result.

GOAL TWO 2 Solutions to improve government systems, including organizations' systems for identifying and managing their business risks

Performance measures		Target 2005-06	Actual 2005-06	Actual 2004-05
Recommendations				
2.a	The percentage of the Auditor General's primary recommendations accepted. [1]	95%	**96%**	87%
2.b	The number of the Auditor General's primary recommendations not implemented within 3 years of acceptance.	0	**20**	21
2.c	Release the Auditor General's Annual Report in October of each year.	October 2005	**October 3 2005**	October 4 2004
Budgets				
2.d	The percentage of systems auditing projects completed within budgeted costs. [2]	70%	**54%**	59%
2.e	The percentage of costs dedicated to systems auditing.	> 30%	**31%**	31%

[1] Acceptance does not include recommendations accepted in principle or under review.
[2] Methodology changed to focus on all systems audits, whether completed or not during the year. Projects where actual costs were less than 15% of budget were considered not started and were excluded from the count. 2004–2005 actuals were restated from 61% to 59% as a result of these changes.

CORPORATE INITIATIVES

Performance measures		Target 2005-06	Actual 2005-06	Actual 2004-05
3.a	The percentage of employees expressing satisfaction working for the Office. [1]	80%	**77%**	N/A
3.b	The percentage of staff meeting Office targets for available time spent on core business functions.[2]	100%	**88%**	90%
3.c	Corporate operating costs as a percentage of total Office costs.	Less than 20%	**16%**	14%

[1] This biennial survey was conducted in March 2006 and was last conducted in 2003–2004 (80% actual).
[2] The methodology has been changed this year to annually limit each staff member to 25 hours of unassigned time and 100 hours for personal administration. The 2004–2005 actual results have been restated from 100% to 90% as a result of this change.

Government's response to 2004–2005 recommendations

The following are the numbered recommendations in our 2004–2005 reports and the government's response to each of them. The reports include:

- Annual Report of the Auditor General of Alberta 2004–2005 (October 2005)—37 numbered recommendations
- Report of the Auditor General on Alberta Securities Commission's Enforcement Systems (October 2005)—2 numbered recommendations
- Report of the Auditor General on Alberta Social Housing Corporation—Land Sales Systems (October 2005)—10 numbered recommendations

Annual Report of the Auditor General of Alberta 2004–2005

Cross-Ministry

1.	Recruiting, evaluating and training boards of directors We recommend that the Deputy Minister of Executive Council update Alberta public sector governance principles and guidance so that they are consistent with current good practices for recruiting, evaluating and training directors.	Accepted. The Deputy Minister of Executive Council will work with other Deputy Ministers to review governance principles and provide guidance to governing boards. The Public Service Commissioner's Directive on Recruitment for Agencies, Boards and Commissions will be reviewed and updated in 2006–07.
2.	Recruiting, evaluating and training boards of directors We recommend that the guidance include a statement that governing boards evaluate and report publicly their own performance against both Alberta public sector principles and their own board governance policies.	Accepted. Guidance to governing boards will include advice on reporting board performance.
3.	Internal audit departments We recommend that the Deputy Minister of Executive Council provide audit committees with guidance for overseeing internal audit departments, including identifying related training.	Accepted. Guidance for overseeing internal audit departments will be provided.
4.	Targets for Societal Measures We recommend that the Department of Finance develop guidance relating to the purpose, definition and use of societal measures.	Accepted. The Ministry of Finance will develop guidance related to the purpose, definition and use of societal measures in government and ministry business plans.

Seniors Care and Programs

5. Developing and maintaining standards

We recommend that the Department of Health and Wellness, working with the Regional Health Authorities and the Department of Seniors and Community Supports, update the Basic Service Standards for services in long-term care facilities and implement a system to regularly review and update the Basic Service Standards to ensure they remain current. (Report of the Auditor General on Seniors Care and Programs, No. 1–page 29).

Accepted. Standards for accommodation and health services provided in continuing care (including long-term care facilities) have been drafted and were part of the MLA Task Force consultations that took place between June and September 2005. The standards were revised based on feedback received during the consultations. The Task Force submitted its final draft standards recommendations to Seniors and Community Supports and Health and Wellness in December 2005 with planned implementation of the standards beginning in 2006–07. A review system will be created to ensure the standards are regularly updated.

6. Compliance with Basic Service Standards

We recommend that the Department of Health and Wellness and the Regional Health Authorities, working with the Department of Seniors and Community Supports, improve the systems for monitoring the compliance of long-term care facilities with the Basic Service Standards. (Report of the Auditor General on Seniors Care and Programs, No. 2–page 31)

Accepted. Health and Wellness, Regional Health Authorities and Seniors and Community Supports to establish effective, coordinated mechanisms for monitoring compliance with health service and accommodation standards in long-term care facilities. This process includes reviewing the roles, legislation and policies of the Health Facilities Review Committee and the Protection for Persons in Care Office. In addition, Health and Wellness, through the 2006–09 three-year health plan process, will require all Regional Health Authorities to have a monitoring and performance audit system to measure the compliance of long-term care facilities to the Continuing Care Health Service Standards.

7. Effectiveness of services in long-term care facilities

We recommend that the Department of Health and Wellness and the Regional Health Authorities, working with the Department of Seniors and Community Supports, assess the effectiveness of services in long-term care facilities. (Report of the Auditor General on Seniors Care and Programs, No. 3–page 34).

Accepted. Health and Wellness and Regional Health Authorities, with support from Seniors and Community Supports, will implement the Inter*RAI* system in long-term care facilities. Health and Wellness began initial implementation of the Inter*RAI* system in April 2005 with expected completion by 2007.

8. Effectiveness of services in long-term care facilities

We recommend that the Department of Health and Wellness, working with the Department of Seniors and Community Supports, collect sufficient information about facility costs from the Regional Health Authorities and long-term care facilities to make accommodation rate and funding decisions. (Report of the Auditor General on Seniors Care and Programs, No. 4–page 35)

Accepted. A mechanism to monitor costs associated with the provision of long-term care accommodation services has been developed by Seniors and Community Supports. Operator expenditure patterns for the 2004–2005 fiscal year are being reviewed and based on the results of the analysis, recommendations will be made for a rate adjustment. A revised template for a financial reporting system will be developed in a phased-in approach by Health and Wellness, with the target date for the first phase of implementation in 2006–2007.

9. Determining future needs for services in long-term care facilities

We recommend that the Department of Health and Wellness, working with Regional Health Authorities and the Department of Seniors and Community Supports, develop a long-term plan to meet future needs for services in long-term care facilities. We also recommend that the Departments publicly report on progress made towards goals in the plan. (Report of the Auditor General on Seniors Care and Programs, No. 5–page 39)

Accepted. Health and Wellness and Regional Health Authorities, with support from Seniors and Community Supports, to develop a long-term plan to meet future service needs in long-term care facilities. This will be achieved by Health and Wellness leading the development of a Health Policy Framework and a Health System Service Plan in 2006. Progress made towards the goals in the plan will be reported publicly.

10. Standards for services in assisted living and other supportive living settings

We recommend that the Department of Health and Wellness and the Department of Seniors and Community Supports establish standards for care and housing services provided in assisted living and other supportive living settings. (Report of the Auditor General on Seniors Care and Programs, No.6–page 45)

Accepted. Standards for accommodation and publicly funded health services provided in supportive living facilities, including seniors lodges, have been drafted and were part of the MLA Task Force consultations that took place between June and September 2005. The standards were revised based on feedback received during the consultations. The Task Force submitted its final draft standards recommendations to Seniors and Community Supports and Health and Wellness in December 2005 with planned implementation of the standards beginning in 2006–07.

11. Developing and monitoring standards for the Seniors Lodge Program

We recommend that the Department of Seniors and Community Supports:

1. update the Seniors Lodge Standards and implement a process to maintain them, and

Accepted. The Seniors Lodge Standards have been incorporated into the Alberta Continuing Care Health Service and Accommodation Standards. To test the standards, this Ministry is currently conducting surveys in 30 lodges. A process will be implemented to keep standards current.

2. improve its systems to monitor management bodies' compliance with the Seniors Lodge Standards. (Report of the Auditor General on Seniors Care and Programs, No. 7–page 48)

A process for monitoring management bodies' compliance with the standards will be implemented in 2006–07.

12. Effectiveness of Seniors Lodge Program

We recommend that the Department of Seniors and Community Supports:

1. improve the measures it uses to assess the effectiveness of the Seniors Lodge Program, and

Accepted in principle. The Ministry will continue to monitor whether lodges are serving primarily low and moderate-income seniors. Lodge surveys will continue to be used to measure the effectiveness of the Senior Citizens Lodge Program in providing quality services.

2. obtain sufficient information periodically to set the minimum disposable income of seniors used as a basis for seniors lodge rent charges. (Report of the Auditor General on Seniors Care and Programs, No. 8–page 49)

The Ministry will continue to obtain information periodically to adjust, if necessary, the minimum disposable income of seniors used as a basis for seniors lodge rates.

13. Information to determine program benefits

We recommend that the Department of Seniors and Community Supports obtain further information necessary to make income threshold, cash benefit and supplementary accommodation benefit decisions for the Alberta Seniors Benefit Program. (Report of the Auditor General on Seniors Care and Programs, No. 9–page 56)

Accepted. In 2006–07 Seniors and Community Supports will look to improve and develop senior specific model(s) and datasets to better identify seniors' financial needs and aid in the decision making process.

Sustainable Resource and Environmental Management (SREM)

14. SREM implementation plan

We recommend that the Deputy Ministers of Energy, Environment, and Sustainable Resource Development, with the help of the Sustainable Resource and Environmental Management (SREM) Project Office:

- publish a SREM implementation plan with projects, deliverables and deadlines, together with responsibilities and costs, and
- report annually to the Standing Policy Committee on their progress in implementing the SREM strategy envisaged in *Alberta's Commitment to Sustainable Resource and Environmental Management*.

Accepted in principle. The Sustainable Resource and Environmental Management (SREM) activities of the three ministries will be identified in the business plans of the ministries. The business plans are reviewed on an annual basis by Standing Policy Committee.

Advanced Education

15. Designating programs as eligible

We recommend that the Department of Advanced Education:

- consistently use graduation and employment data, along with loan relief benefit grant (LRB grant) repayments, in assessing which programs will continue to be eligible for student funding, and
- test the reliability of student graduation and employment data from private institutions with students who have student loans.

Accepted. The Ministry agrees that expanding the use of existing data (such as graduate, employment and grant repayments) could improve the assessment of programs and the related eligibility for student finding. In 2005-06, the Ministry will investigate opportunities to expand the use of existing data.

The Ministry will expand testing of the reliability of student graduation and employment data for private institutions in 2005–06

16. Departmental compliance tests

We recommend that the Department of Advanced Education:

- test and evaluate the risk of issuing excessive loans and LRB grants because of invalid student eligibility information, and
- automate the process it uses to determine whether income variances are due to Department grants.

Accepted. In 2005–06, the Ministry will review and determine where gaps exist and where business processes can be made more effective and efficient. This will include expanded testing of eligibility data and evaluating opportunities to automate processes.

17. Public post-secondary institutions purchasing

We recommend that the Department of Advanced Education work with post-secondary institutions to find opportunities to purchase goods and services at better prices.

Accepted. Under certain circumstances it may be appropriate for institutions to pursue collective purchasing and the Ministry will, where appropriate, advocate this by encouraging the institutions and other government departments to share information regarding procurement.

18. Research roles and responsibilities

We recommend that the University of Calgary define research management roles and responsibilities.

Accepted. The University of Calgary is now undertaking a review of its Research Services and Research and Trust Accounting areas. As part of the review, it is looking at interactions with other areas and stakeholders, and will develop roles and responsibilities as appropriate.

19. Information technology planning and governance

We recommend that Athabasca University improve its information technology planning and governance by:

- completing the definition of its overall information technology strategy, and preparing and implementing a plan to achieve the strategy.
- adopting a formal information technology internal control system framework.
- creating an overall steering committee to manage information technology.

Accepted. Athabasca University has appointed a Chief Information Officer and has implemented a project approval policy and project management process. It will take such additional steps as implementing a Technology Governance Framework and University-wide multi-year information technology systems plans to further improve the Information Technology area.

Agriculture, Food and Rural Development

20. Grant management system

We again recommend that the Department of Agriculture, Food and Rural Development evaluate the performance of its grant programs in meeting Ministry goals. This includes evaluating the grant programs themselves, as well as individual grants under the programs. (2000–2001–No. 3)

Accepted. Although discussions have taken place regarding the performance and related program adjustments for grant programs, it is evident that discussions have not been documented to validate that the intended outcomes are being effectively managed. Appropriate resources will be allocated to implement processes that will demonstrate full implementation of the recommendation.

21. Awarding Beginning Farmer Loans

We recommend that the Agriculture Financial Services Corporation:

- clearly define eligibility criteria for the Beginning Farmer Loans program.
- document its evaluation of the loan applicant against the program eligibility criteria.
- analyze the borrower's financial condition before approving the loan in accordance with its procedures.
- monitor accounts in arrears in accordance with its procedures.
- complete an analysis to support the level of program fees charged.
- monitor and evaluate the borrower against the eligibility criteria required to earn the interest rate discount.

Accepted. Following a review of the objectives of the program, policies regarding loan eligibility and incentives will be reviewed and redefined as required to ensure that the criteria are clear, measurable and can be applied consistently. Criteria will be developed to establish the basis on which loan fees are determined as well as how they compare to the lending industry. Procedural improvements will be made to ensure that evaluation and analysis of borrowers' repayment capacity is undertaken and properly documented and to ensure that the level of file administration and documentation is appropriate for security valuation and monitoring and follow-up of delinquencies.

22. Managing the Beginning Farmer Loans program

We recommend the Agriculture Financial Services Corporation:

- develop a human resource plan for lending that identifies the staff and skills required to deliver farm lending programs.
- develop measures to assess whether the objectives of the Beginning Farmer Loans program are being met.
- monitor the operational plan against the results achieved and report on those results.

Accepted. Under a restructuring plan currently in progress, all lending staff will become knowledgeable and responsible for delivery of all of Agriculture Financial Services Corporation's (AFSC) farm and commercial loan products. The required experience and skill sets of staff will be determined and the appropriate staff numbers defined and implemented. Once the objectives of the program are reviewed and redefined, AFSC will develop measures to assess whether the objectives of the program are being met. Monitoring achieved results against the lending tactical plan on a quarterly basis is now documented.

23. Administering the Canadian Agriculture Income Stabilization program

We recommend the Agriculture Financial Services Corporation improve controls over the administration of the Canadian Agricultural Income Stabilization program by:

- documenting its policies and procedures.
- strengthening its claim verification procedures.
- maintaining sufficient documentation on file.
- developing criteria for waiving the application of the structural change.
- developing criteria to identify high-risk participants.
- testing spreadsheets before implementing them.

Accepted. Agriculture Financial Services Corporation (AFSC) is currently reviewing each of the recommendations to update the procedures, policies, claim verification, inventory pricing and approvals to improve consistency and internal controls to ensure claims are processed accurately and completely. The program compliance and investigations area is also being strengthened to better identify and deal with high-risk clients for all programs administered by AFSC. For future provincial and national changes to the Canadian Agricultural Income Stabilization program, AFSC will complete detailed analyses to determine their impact before the changes are implemented.

Children's Services

24. Contract approvals

We recommend that the Ministry of Children's Services sign contracts (whether new or renewal) before contractors supply goods or services.

Accepted. In April 2005, the Ministry approved a new contract policy that requires all contracts to be signed prior to the commencement of services, or where a contract is to be renewed, the renewal must be signed by all parties prior to the effective date of the renewal. The Ministry has also drafted a Contract Policy and Procedures Manual and is working on a Contract Management training program to be delivered to all staff involved in the contracting process.

25. First Nation expense recoveries

We again recommend that the Ministry of Children's Services improve its systems to recover expenses for providing services to children and families ordinarily resident-on-reserve. (2001–2002–No. 7)

Accepted. The Ministry has taken a number of steps to address the segregation of duties and reconciliation issues raised in the Auditor General's report. A project is also underway to identify improvements to the existing practices for handling both on- and off-reserve billings. In addition, the Ministry continues to pursue Billing Procedures and Protocol Addendums to the Agreements with the Delegated First Nations Agencies, and to address the funding formula for administration costs with the federal government.

Community Development

26. Wild Rose grants to Applewood

We recommend that The Wild Rose Foundation review the results of our audit into the grants to Applewood Community Association and take appropriate action.

Accepted. The Wild Rose Foundation Board is seeking recovery of the third grant of $20,000 in accordance with section 4 of the Wild Rose Foundation Regulation. The Foundation is also tightening the grant application, guidelines and accountability report requirements for the International Development program.

Education

27. Savings generated by Learning Resources Centre

We recommend that the Department of Education implement a system to periodically evaluate the savings generated by the Learning Resources Centre and identify opportunities for additional savings.

Accepted. Although the Ministry completes individual initiative evaluations, an overall evaluation report will be completed in 2006–07 to quantify all cost savings realized by the Centre and identify areas for further savings. This initial report will cover all cost saving initiatives to date, with subsequent reports every three to five years to provide updates.

Energy

28. Assurance on well and production data

We recommend the Department of Energy:

- complete its risk assessment and evaluate the assurance obtained from the Petroleum Registry System and the Department's controls over well and production data, and
- communicate to the Alberta Energy and Utilities Board how much assurance, if any, the Department needs over the completeness and accuracy of well and production data.

Accepted. The Ministry continues to work with the Production Audit Team from the Alberta Energy and Utilities Board in an effort to resolve the issues. Upon receipt of a copy of the Production Audit Team's 2004-2005 annual report, the Ministry will be in a position to quantify the volumetric reconciliation exceptions, the status of volumetric discrepancies, and then rationalize volume audits to volumetric balancing. With this information, the Ministry will conduct a risk assessment.

29. Assurance systems for volumetric accuracy

We recommend that the Alberta Energy and Utilities Board explore ways to strengthen controls for verifying the accuracy and completeness of oil and natural gas volumetric data and for enforcing measurement standards.

Accepted. The Alberta Energy and Utilities Board (EUB) will explore ways of improving controls for volumetric data accuracy by verifying roles and responsibilities with the Ministry and assessing the effectiveness of existing control systems. Effective January 1, 2006, enforcement of EUB measurement requirements will be in accordance with the recently updated Directive 019 *EUB Compliance Assurance—Enforcement.*

30. Liability Management for Suspension, Abandonment and Reclamation Activities

We recommend that the Alberta Energy and Utilities Board improve its systems by monitoring the timeliness in which industry restores wells, facilities and pipelines to a safe and stable condition after permanent dismantling.

Accepted. The Alberta Energy and Utilities Board (EUB) intends to enhance its reporting capabilities respecting licence life cycle information to produce summary reports to track how long wells and facilities have been inactive. The EUB will also contact other government agencies to determine how their requirements effect industry decisions to retain inactive wells, facilities and pipelines. The EUB will initiate discussions with industry this fiscal year on this issue with a view to reducing the number of inactive licences.

Environment

31. Financial security for land disturbances

We recommend that the Ministry of Environment implement a system for obtaining sufficient financial security to ensure parties complete the conservation and reclamation activity that the Ministry regulates. (1998–1999–No. 30)

Accepted. Progress is being made, however, the information gathering process is involved and complex due to the nature of the issues being addressed, it is anticipated that the stakeholder consultation process will be equally complex. The Ministry plans to continue to work with other ministries in developing a risk-focused asset to liability model to calculate the security needed in the mining and oil and gas sectors.

Finance

32. ATB Lending policy compliance

We again recommend that Alberta Treasury Branches ensure its lending officers comply with corporate lending policies. (2002–2003—No. 15)

Accepted. Alberta Treasury Branches (ATB) has taken a number of steps this year to address this issue including initiating an in-depth lending policy review; benchmarking business lending policies and procedures to industry requirements; amending policy to industry standard on when business borrowers are required to report back to ATB; reviewing, adjusting and clarifying lenders' lending limits; applying technology to the process of authorizing loans; and implementing a checklist to ensure loan applications are correctly filled out in the branches. in addition, this area is a key focus in ATB's current business plan.

33. ATB Branch operations compliance

We again recommend that Alberta Treasury Branches ensure branch processes comply with corporate policies and procedures. (1999–2000–No. 49)

Accepted. Alberta Treasury Branches (ATB) has a comprehensive and wide-ranging strategy in place to address this issue as part of its current business plan. ATB has significantly reorganized its resources, including the creation of a new compliance team and placing renewed emphasis on training, to enable the implementation of the strategy. In addition, ATB is conducting an in-depth review of operational policies and procedures which is targeted for completion by November 2006.

Government Services

34. Implementation of project management framework

We recommend that the Ministry of Government Services implement the recommendations of the Office of the Chief Internal Auditor on improving the planning and monitoring processes for the Registry Renewal Initiative.

Accepted. The Ministry will prepare a renewed comprehensive Initiative Plan in 2006 that will identify critical milestones, cross-project influences, and measurable deliverables. The Ministry will provide more comprehensive reports to Ministry Executive, including information on expected deliverables, timelines, costs compared to plans, and reasons for and impact of significant variances.

Infrastructure and Transportation

35. Air Transportation program assessment

We recommend that the Department of Infrastructure and Transportation complete and maintain a program assessment that includes an analysis of its aircraft fleet's use and an overall cost-benefit analysis of the program to ensure that program operations are aligned with program objectives, user needs, and use policies.

Accepted. The Ministry will complete a program assessment that includes an analysis of its aircraft fleet's use and an overall cost-benefit analysis of the program to ensure that program operations are aligned with program objective, user needs, and use policies in fiscal year 2005-2006. Periodic reviews will be conducted.

36. Air Transportation public reporting

We recommend that the Department of Infrastructure and Transportation publicly report fleet use details permitted to be disclosed by the *Freedom of Information and Privacy Act*.

Accepted. The Ministry has already made changes in this area and will be providing access to flight manifests to Albertans in fiscal year 2005–06.

Restructuring and Government Efficiency

37. Performance measures

We again recommend that the Ministry of Restructuring and Government Efficiency:

- clearly define its performance measures and targets, and
- develop systems to monitor and report results. (2001–2002—No. 22, 2002–2003—No. 20)

Accepted. Management will continue to improve performance measures and the associated performance measurement tracking and reporting systems. Work will be undertaken to ensure clear alignment between performance measures and the components of the business plan.

Report of the Auditor General on Alberta Social Housing Corporation—Land Sales Systems

1. Planning for land sales and development in Fort McMurray

We recommend that Alberta Social Housing Corporation, working with the Ministries of Infrastructure and Transportation and Sustainable Resource Development and the Regional Municipality of Wood Buffalo, establish a long-term plan for selling land in Fort McMurray.

Management accepts the recommendation. The Alberta Social Housing Corporation (ASHC) has 860 acres of developable land remaining and intends to sell it in 2005 and 2006. Alberta Seniors and Community Supports participate in the Oil Sands Ministerial Strategy Committee chaired by the Honourable Greg Melchin, Minister of Energy. This committee is addressing the infrastructure needs of the municipality and preparing composite long-term development strategies to support the rapid growth in Fort McMurray. This department will actively support the committee through its strategy of selling the remaining ASHC land holdings in Timberlea and participating as required in the longer term development of Fort McMurray.

2. The Corporation's systems for selling land

We recommend that Alberta Social Housing Corporation improve its systems for selling land to ensure that its objectives are met.

Management accepts the recommendation. ASHC is proceeding with the sale of Parcel D through a public Request For Proposal (RFP) process, which clearly identifies the objectives of the sale. A review committee including independent external members will assess how each proposal meets these objectives, with the final selection and land sale to be undertaken with the proponent who best meets the objectives of the RFP. A plan is also in place to dispose of ASHC's remaining land holdings in Fort McMurray. It is anticipated that all remaining ASHC land sales will be completed in 2006.

Report of the Auditor General on Alberta Securities Commission's Enforcement Systems

1. Recording support for decisions

We recommend that the Alberta Securities Commission improve the recording of its inquiries, discussions and analysis to support the decisions made on case files.

We agree with the recommendation. It is the usual practice for ASC to provide sufficient documentation to support significant decisions reached on case files. Nevertheless, ASC will implement formal steps to review stages where additional documentation should be completed to articulate the rationale for key decisions and actions taken on case files. Such steps will be undertaken as part of addressing Recommendation No. 4. We acknowledge the delinquency in previous years in the preparation of specific action plans in Case Assessment. Since April 1, 2005, written Action plans have been normal practice for all Case Assessment files.

2. Independent review and segregation of duties

We recommend that the Alberta Securities Commission ensure the results of enforcement activities are independently reviewed and appropriate segregation of duties exists in the enforcement system.

ASC has instituted a practice to ensure an independent review of every case closure assessment and the documentation of same. The practice commenced September 15, 2005 and documentation will follow as part of addressing Recommendation No. 4.

3. Timely action

We recommend that the Alberta Securities Commission ensure enforcement processes are completed in a timely manner.

ASC agrees that the completion of enforcement processes in a timely manner is extremely important. We will continue to take steps to promote this objective including further developing and implementing appropriate key performance indicators. The establishment and application of key performance indicators will be targeted for completion within twelve months of completion of the matters addressed in Recommendation No. 4.

4. Policies and guidelines

We recommend that the Alberta Securities Commission review and clarify its policies and guidelines for enforcement activities.

Enforcement will undertake a comprehensive review of its enforcement procedures manual and update it as warranted. Responsibility for the undertaking will be allocated among senior enforcement staff with input from the general counsel and other executive management; the effort be underway by December 1, 2005; and completion will be targeted within six months of commencement. In particular, revisions and updating will address the recommendations raised by the Auditor General concerning investigatory processes which are not uniform between Investigations and Case Assessment branches, and more directive criteria to express rationale of closing files.

In respect of the specific audit findings, the sample cases from Case Assessment were reviewed by management. We did not find there to have been any deficiency evident in the conduct of the cases cited by the Auditor General as a result of their complete investigation by Case Assessment. The ability of Case Assessment to assist with achieving closure of cases when appropriate increases the efficiency of ASC's enforcement capabilities. However, we agree that the prerequisites to closure of a case by Case Assessment should be articulated in the enforcement procedures manual to ensure that the process is no less rigorous than that applied by Investigations branch.

5. Performance measurement

We recommend that the Alberta Securities Commission measure the performance of its enforcement program.

ASC agrees with this objective and will continue to strive to measure performance in this challenging area. Management is in the process of developing key performance indicators for implementation and expects these to be in place within 12 months of completion of addressing the matters raised in Recommendation No.4. The Commission recognized in 2003 that there were inadequacies in the management of the Enforcement Department and took steps to remedy that circumstance. Enforcement activity increased dramatically by the end of fiscal 2005 and has since then consistently produced credible results.

6. Conflict of interest

We recommend that the Alberta Securities Commission improve its monitoring of Member and employee compliance with conflict of interest policies by:

- comparing investment disclosure reports from Members and employees to cases being investigated, and
- ensuring investment disclosure reports are provided by Members and employees within the required timeframe.

The issue of reporting all Members' trades of securities was a matter that was debated at some length over the past year by the Members. The previous practice, which is that proposed to be reinstated by the Auditor General, was dispensed with and the new policy was implemented in May 2005 requiring the reporting of trades in securities where the holder has 5% or more of a class of securities. This was done on the basis it would significantly reduce the volume of relatively insignificant trades reported, but maintain a level of transparency where there exists a greater potential for conflicts of interest. We will revisit the policy with the Members having regard to the recommendations of the Auditor General and determine if any changes are appropriate.

We note that although the Auditor General did not identify any activity influenced by a conflict of interest, he did identify a breach of policy. As to the single breach of policy identified by the Auditor General, we note the following. The Director was not aware of the investigation at the time the purchase was made. The Director's broker advised him to make the purchase at least two days prior to March 10, 2005 (which was the settlement date). In accordance with his normal practice he reviewed the file inventory when he met with the Case Assessment manager in late March. The Director delivered his report of the trade on March 11, 2005 and did not sell until his broker provided an unsolicited recommendation in June. Reports of each trade were made by the Director in accordance with ASC policy and were provided to the Auditor General. We are satisfied that there was no use of confidential information or actual conflict of interest in the Director's conduct. Nevertheless, the Director acknowledged to the Auditor General that he was not in compliance with the policy restricting trading. Management has satisfied itself that notwithstanding there was a breach of the policy, there was no wrongful intention on the part of the Director. The matter has been addressed and it is acknowledged that greater discipline should forthwith be introduced into in our processes to both prevent and detect breaches. This will have the result of a greater burden being placed on each of the Chair, the Executive Director and the Chair of the Human Resources Committee in the monitoring of policies.

Management will investigate the benefits and costs of implementing a system which will trigger automatic notice of every reported sale of securities of any entity under investigation.

More rigour will be applied to all requirements that reporting deadlines be met.

7. Conflict of interest

We recommend that the Alberta Securities Commission strengthen its conflict of interest policies by:

- requiring employees to complete annual declarations that they comply with the policies,
- requiring Members to provide investment disclosure reports respecting all securities transactions they complete, and
- requiring Members to document reasons why they cannot participate in a specific enforcement proceeding due to a conflict of interest.

Management will implement a policy, to be effective for the 2006 fiscal year, requiring an annual declaration by employees that they are in compliance with all conflicts of interest policies.

Please refer to first paragraph in response to Recommendation No.6.

8. Human resources

We recommend that Alberta Securities Commission improve its governance process by:

- ensuring the terms of reference for the Human Resources Committee provide for adequate oversight of the human resources function,
- providing sufficient information to the Human Resource Committee to enable the Committee to meet its mandate, and
- ensuring that the Human Resources Committee monitors the development of a process to identity, investigate, report, and act on employee issues and concerns.

ASC believes that the terms of reference for the Commission's Human Resources Committee are appropriate for the mandate of the Committee. The Committee is charged with review and oversight of HR policies for employees. Management will ensure that the HR Committee is informed of the plans and strategies developed by the Director of Corporate Services and HR and approved by management of the ASC. The Director will be requested to regularly inform the HR Committee of steps taken and progress made in respect of those plans and strategies in order that the HR Committee may readily fulfill its oversight duty. A procedure will be implemented forthwith whereby the Director will meet with the Chair of the HR Committee prior to each of the monthly meetings of the Members of the Commission.

As set out in your report, a recommendation of our consultants is to develop a policy in addition to the respectful workplace policy dealing with anonymous complaints. ASC has a new Director of Corporate Services and HR who is conducting a review of all of our employee policies. It is intended that a "whistleblower" policy be in place in January 2006.

9. Governance

We recommend that the Minister of Finance, working with the Alberta Securities Commission Members, request the Lieutenant Governor in Council to designate a Member of the Commission as the lead independent Member and prescribe the powers, duties and functions of the lead independent Member as provided for in the Securities Act.

We appreciate the importance of the ASC both being and being perceived to be independent and free of conflicts in all aspects of its operations, and in particular, enforcement. The subject of lead directors is one on which a wide variety of views have been expressed. We would welcome the research which the Auditor General will have done and the analysis which the Auditor General will have applied in formulating his recommendation that the ASC would be best served by a Lead Member. Questions which need to be considered in the context of enforcement include:

- will another layer of decision making improve the chances for a better decision?
- to what extent will further process detract from timely and consistent decision making?
- will the addition of a Lead Member result in negative perceptions that Members having an adjudication role are too closely associated with the ASC 's enforcement function?
- is there evidence to suggest that management personnel in the enforcement division, who already must account to all of the Executive Director, the Chief Executive Officer and the Commission Members, are not fully accountable for their decisions and conduct unless there is a part-time Lead Member to whom they would account and with whom they would share responsibility?
- will the addition of one more decision maker in the enforcement process ensure that there will no longer be disagreement among staff in respect of difficult decisions made by the decision makers?
- should an oversight board or individual member of it intervene in the day-to-day operational decisions of the body that it is called upon to oversee?
- will a Lead Member be better qualified than the Chair and Chief Executive Officer to ensure that all decisions are made in a consistent, even-handed and unbiased manner?
- will the appointment of a Lead Member raise concerns regarding the independence of the ASC from government?

It is notable that we are not aware of the introduction of a Lead Member in the structures of other North American securities regulators for the purpose of enhancing structure or processes. Nevertheless, with the importance of these priorities in mind, we will consider the governance issues which are raised in the context of the ASC's enforcement responsibilities and evaluate the suggestion proposed. We will compare the pros and cons of all of our current structure, the lead director model and other structures proven effective elsewhere. We will complete our review during the course of the 2006 calendar year, making appropriate adjustments as we progress and with the intent that we be in a position to recommend that our current model be either confirmed or amended by the first quarter of calendar 2007.

10. Internal controls

We recommend that the Alberta Securities Commission establish a process to assess the adequacy of the enforcement system's internal controls. This process should include reporting the results of the assessment to the Commission Members.

ASC fully supports adequate internal controls in its operations and has instituted this in respect of its financial systems the past year. A report was provided to the Audit Committee and there were recommendations made for implementation going forward. In terms of the enforcement system's internal controls, this audit and the recommendations emanating there from will assist with ensuring the adequacy of such controls. The Commission Members will be kept fully informed in relation to implementation of the relevant recommendations.

ASC agrees with the suggestion that an independent review be conducted on enforcement on a regular basis every three to five years. Such a review was commenced this year by a consultant who is recognized as one of the foremost authorities in Canadian securities regulatory enforcement. His findings will be considered by the Commission as soon as the final report is presented.

Reporting the status of recommendations

We require the government to agree to an implementation date for each recommendation it accepts. We follow up all recommendations and report their status in our annual report. Within each chapter, the section titled, *Our audit findings and recommendations*, reports the status as follows:

Status of recommendation	What we say in the report
Implemented	We briefly explain how the government implemented the recommendation.
Satisfactory progress	We describe the progress and what the government must still do to implement the recommendation.
Recommendation repeated	We explain why we are repeating the recommendation and what the government must still do to implement the recommendation.
Not assessed	We indicate when we will follow up on the recommendation.

Issues more than 3 years old are shown on page 250.

Issues more than 3 years old

We use 3 years as a performance measure for when we expect management to implement our recommendations. The following table shows the status of recommendations more than 3 years old. Currently, there are 24 recommendations not yet implemented—we are repeating 3 of them in this report.

	Total numbered recommendations [1]	Fully Implemented	Recommendations not yet implemented	
			Progress Satisfactory	Repeated in this report
1996–1997	26	25	1	-
1997–1998	47	45	1	1
1998–1999	28	25	3	-
1999–2000	33	27	6	-
2000–2001	26	21	4	1
2001–2002	26	19	6	1
			21	3

These are the 3 recommendations we repeat in this report:

Regional Health Authority Global Funding

- 2006 Recommendation No. 19—Data improvement (1998—No. 27)

Health and Wellness

- 2006 Recommendation No. 33—Analysis of physician billing information (2001—No. 17)
- 2006 Recommendation No. 34—Information technology control environment (2002—No. 24)

[1] Excludes repeated recommendations

The employees of the Office of the Auditor General as of the date of this report, and students who worked over the summer or completed a co-op term, are:

Alex So
Alla Gibson
Ally Shariff
Andrew Lerohl
Ann Roberts
Annie Shiu, CHRP
Arlene DeLuca
Audrey Hayward
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Barb McEwen, BASc, MSc
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Beverly Loo
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Carrie Lorenz
Christopher Nowell, CISA
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Graham Quast
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Holly Mah
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Jane Staples, CA
Janine Mryglod, CA
Jason Song
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Jim Hug, CA
John Margitich
Karen Hunder, CA
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Meriem Aiffa
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Michael Stratford, CA
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Michelle Fleming, CA
Nancy Wang
Nisha Sachedina, CISA
Pablo Binas
Pamela Appleman
Pamela Tom, CMA
Patrick Dunnigan, CISA
Patty Hayes, CA
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Vivek Dharap, CA·IT/CISA
Wendy Popowich, CA
Winnie Leung
Ying Kuang
Yvonne Lo

Reference

Glossary

This glossary explains key accounting terms and concepts in this report.

Accountability

Responsibility for the consequences of actions. In this report, *accountability* requires ministries, departments and other entities to:

- report their results (what they spent and what they achieved) and compare them to their goals
- explain any differences between their goals and results

Government accountability allows Albertans to decide whether the government is doing a good job. They can compare the costs and benefits of government action: what it spends, what it tries to do (goals), and what it actually does (results).

Accountability system

A system designed to ensure that the government is accountable for how it spends public money. The system requires the government to:

1. set measurable goals and responsibilities
2. plan the work to achieve the goals
3. do the work and monitor progress
4. report on results
5. evaluate results and provide feedback to refine or adjust plans

Accrual basis of accounting

A way of recording financial transactions that puts revenues and expenses in the period when they are earned and incurred.

Adverse auditor's opinion

An auditor's opinion that financial statements are not presented fairly and are not reliable.

Amortize

To reduce an amount of money to zero over a certain time.

Assurance

An auditor's written conclusion about something audited. Absolute assurance is impossible because of several factors, including the nature of judgment and testing, the inherent limitations of control, and the fact that much of the evidence available to an auditor is only persuasive, not conclusive.

Attest work, attest audit

Work an auditor does to express an opinion on the reliability of financial statements.

Audit

An auditor's examination and verification of evidence to determine the reliability of financial information, to evaluate compliance with laws, or to report on the adequacy of management systems, controls and practices.

Auditor

A person who examines systems and financial information.

Auditor's opinion

An auditor's written opinion on whether things audited meet the criteria that apply to them.

Auditor's report

An auditor's written communication on the results of an audit.

Capital asset

A long-term asset.

Capitalize

To charge an expense to a capital asset account rather than an expense account.

Capital planning — A process to:

- identify the short- and long-term capital assets needed to carry out core businesses
- rank capital projects
- prepare business cases to support capital projects
- determine the cost and method of financing capital projects

COBIT — Abbreviation for "Control Objectives for Information and Related Technology". COBIT was developed by the Information Systems Audit and Control Foundation and the IT Governance Institute. COBIT provides good practices for managing IT processes to meet the needs of enterprise management. It bridges the gaps between business risks, technical issues, control needs, and performance measurement requirements.

Core business — The essential thing that a ministry does.

Corporate government accounting policy — An accounting policy that the Ministry of Finance requires ministries and departments to use in preparing their financial statements. Accounting policies include both the specific accounting principles an organization uses and the ways it applies the principles.

Criteria — Reasonable and attainable standards of performance that auditors use to assess systems.

Cross-ministry — The section of this report covering systems and problems that affect several ministries or the whole government.

Crown — The Government of Alberta.

Deferred maintenance — Any maintenance work not performed when it should be. Maintenance work should be performed when necessary to ensure capital assets provide acceptable service over their expected lives.

Exception — Something that does not meet the criteria it should meet—see "Auditor's opinion".

Expense — The cost of a thing over a specific time.

GAAP — Abbreviation for "generally accepted accounting principles", which are established by the Canadian Institute of Chartered Accountants.

Governance — A process and structure that brings together capable people and relevant information to achieve goals. Governance defines an organization's accountability systems and ensures the effective use of public resources.

IMAGIS — Abbreviation for the government's Integrated Management Information System—a customized version of *PeopleSoft*. It is the main computer program that ministries use for financial and human resource information systems.

Internal audit — A group of auditors within a ministry (or an organization) that assesses and reports on the adequacy of the ministry's internal controls. The group reports its findings directly to the deputy minister. Internal auditors need an unrestricted scope to examine business strategies; internal control systems; compliance with policies, procedures, and legislation; economical and efficient use of resources; and the effectiveness of operations.

Internal control

A system designed to provide reasonable assurance that an organization will achieve its goals. Management is responsible for an effective internal control system in an organization, and the organization's governing body should ensure that the control system operates as intended. A control system is effective when the governing body and management have reasonable assurance that:

- they understand the effectiveness and efficiency of operations
- internal and external reporting is reliable
- the organization is complying with laws, regulations, and internal policies

Management letter

Our letter to the management of an entity that we have audited. In the letter, we explain:

1. our work
2. our findings
3. our recommendation of what the entity should improve and how it should do so
4. the risks if the entity does not implement the recommendation

We also ask the entity to explain specifically how and when it will implement the recommendation.

Material, materiality

Something important to decision-makers.

Misstatement

A misrepresentation of financial information due to mistake, fraud, or other irregularities.

Net realizable value

Estimated selling price in the ordinary course of business minus estimated costs of completion and sale.

Outcomes

The results an organization tries to achieve based on its goals.

Outputs

The goods and services an organization actually delivers to achieve outcomes. They show "how much" or "how many".

Performance measure

Indicator of progress in achieving a goal.

Performance reporting

Reporting on financial and non-financial performance compared to plans.

Performance target

The expected result for a performance measure.

Public sector accounting standards

Accounting principles, similar to GAAP, which apply to the public sector; established by the Public Sector Accounting Board.

Public sector comparator

A benchmark to assess the value for money of two different ways of constructing facilities and providing services: by traditional government methods and by a public-private partnership. The private sector partner may design, build, finance, operate, maintain, and own the facility. In a traditional government model, the government would do all these things. Public sector comparators are typically used in long-term and construction projects.

Qualified auditor's opinion

An auditor's opinion that things audited meet the criteria that apply to them, except for one or more specific areas—which cause the qualification.

Recommendation

A solution we—the Office of the Auditor General of Alberta—propose to improve the use of public resources or to improve performance reporting to Albertans.

Reservation of opinion

A generic term for an adverse auditor's opinion or a qualified auditor's opinion.

Risk

Anything that impairs an organization's ability to achieve its goals.

Risk management Identifying and then minimizing or eliminating risk and its effects.

Shadow bid A bid on a significant project that is a benchmark to ensure that the bids of eligible suppliers are reasonable. A project owner pays an expert to make a shadow bid estimating a reasonable amount for the project. By making the shadow bid, the expert becomes ineligible to bid on the project. A shadow bid is particularly important if there are no competing bids on a project.

Sole source contract An agreement with just one supplier chosen without a competitive bidding process.

Specified auditing procedures Actions an auditor performs to check certain qualities, such as reliability, of reported information that management asks the auditor to check. Specified auditing procedures are not extensive enough to allow the auditor to express an opinion on the information.

Systems (management) A set of interrelated management control processes designed to achieve goals economically and efficiently.

Systems (accounting) A set of interrelated accounting control processes for revenue, spending, the preservation or use of assets, and the determination of liabilities.

Systems audit To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

Paragraphs (d) and (e) of subsection 19(2) of the *Auditor General Act* require us to report every case in which we observe that:

- an accounting system or management control system, including those designed to ensure economy and efficiency, was not in existence, or was inadequate or not complied with, or
- appropriate and reasonable procedures to measure and report on the effectiveness of programs were not established or complied with.

To meet this requirement, we do *systems audits*. First, we develop criteria (the standards) that a system or procedure should meet. We always discuss our proposed criteria with management and try to gain their agreement to them. Then we do our work to gather audit evidence.

Next, we match our evidence to the criteria. If the audit evidence matches all the criteria, we conclude the system or procedure is operating properly. But if the evidence doesn't match all the criteria, we have an audit finding that leads us to recommend what the ministry must do to ensure that the system or procedure will meet all the criteria.

For example, if we have 5 criteria and a system meets 3 of them, the 2 unmet criteria lead to the recommendation.

A *systems audit* should not be confused with assessing systems with a view to relying on them in an audit of financial statements.

Unqualified auditor's opinion An auditor's opinion that things audited meet the criteria that apply to them.

Value for money The concept underlying a systems audit is *value for money*. It is the "bottom line" for the public sector, analogous to profit in the private sector. The greater the value added by a government program, the more effective it is. The fewer resources that are used to create that value, the more economical or efficient the program is. "Value" in this context means the impact that the program is intended to achieve or promote on conditions such as public health, highway safety, crime, or farm incomes. To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

Other resources

The Canadian Institute of Chartered Accountants (CICA) produces a useful book called, *Terminology for Accountants*. They can be contacted at CICA, 277 Wellington Street West, Toronto, Ontario, Canada M5V 3H2 or www.cica.ca.

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